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Volume 6, Number 1 June 1984

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Contemporary Southeast Asia

Volume 6, Number 1 **June 1984**

Articles

Joint Enterprises in the Malaysian Agricultural Sector — MAVIS PUTHUCHEARY and STEPHEN MILNE — 1

Politics at the Periphery: A Study of the 1981 and 1982 Election Campaigns in Sabah — BRUCE GALE — 26

Strengthening the Capacities of Local Government in Indonesia: Issues, Strategies and Experiences — MICHAEL MORFIT — 50

Vietnam's Population: Current Notes — STEWART E. FRASER — 70

Co-operation in Southeast Asian Fisheries — GEORGE KENT — 89

Documentation

Indonesia: Draft State Budget (1984/85) — 103

Book Review

New Foundations for Asian and Pacific Security — 114

Some Recent Publications — 118

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Contemporary Southeast Asia

Volume 6, Number 2 **September 1984**

Articles

U.S.-ASEAN Relations in the 1980s — ROBERT C. HORN 119

Philippine Economic Performance in Regional Perspective — HAL HILL *and* SISIRA JAYASURIYA 135

Multinational Corporations and Industrialization in Southeast and East Asia — BASU SHARMA 159

The Seremban By-Election of 19 November 1983 and its Implications for Malaysian Politics — CHEW HUAT HOCK 172

ASEAN Security for the 1980s: The Case for a Revitalized ZOPFAN — JOHAN SARAVANAMUTTU 186

Documentation

Address from the Holy See to the Government, Diplomatic Corps and Religious Leaders, 11 May 1984, Bangkok, Thailand 197

Book Reviews

Social Science Research in Malaysia 201

Malaysian Studies: Present Knowledge and Research Trends 201

Straits in International Navigation: Contemporary Issues 202

Some Recent Publications 204

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Contemporary Southeast Asia

Volume 6, Number 3 **December 1984**

Articles

Church and State in the New Republic of the Philippines — ROBERT L. YOUNGBLOOD — 205

The New French Socialist Foreign Policy and Indochina — ERIC TEO — 221

Some Development Problems in Bali — W. DONALD McTAGGART — 231

Recent Political Developments in Thailand and Their Implications for the Future — KRAMOL TONGDHAMACHART — 246

Manpower Planning and Development in Malaysia — SIEH MEI LING *and* LIM LIN LEAN — 253

Documentation

The Challenge of Economic Development — 263

Statement Issued by the Sixteenth Meeting of the ASEAN Economic Ministers — 266

Book Review

Multinational Business and National Development: Transfer of Managerial Knowhow to Singapore — 272

Some Recent Publications — 274

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Contemporary Southeast Asia

Volume 6, Number 4 **March 1985**

Articles

Housing and Development in Singapore — CEDRIC PUGH — 275

Co-optation and Elite Accommodation in Malaysian Politics — SIMON BARRACLOUGH — 308

Recent Tax Changes in ASEAN and their Implications — MUKUL G. ASHER — 319

Documentation

Pacific Basin Assumes Major Importance to the United States: Highlights of Wolfowitz' Year-End Interview — 337

Book Reviews

The Dilemma of Independence: Two Decades of Malaysia's Foreign Policy, 1957–1977 — 342

Multinational Business and National Development: A Reply to Professor H.W. Arndt. — 343

Some Recent Publications — 345

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Joint Enterprises in the Malaysian Agricultural Sector

MAVIS PUTHUCHEARY and STEPHEN MILNE

The corner-stone of Malaysia's[1] rural development strategy consists of schemes designed to move the rural population from the traditional subsistence farming and smallholder sector to the modern plantation sector. The largest and most successful of these schemes were those carried out by the Federal Land Development Authority (FELDA).[2] In the last ten years, however, the government has become interested in a different strategy to achieve the same objective — the establishment of commercially viable agricultural projects. Although several studies have been made on the FELDA schemes, hardly any work has been done on these commercially oriented projects. This paper focuses on the agricultural projects which are being undertaken through joint ventures between public and private enterprises. The paper concentrates on three main aspects: the strategy itself and what it hopes to achieve; the instruments created, with special reference to joint enterprises between public and private enterprises; and an assessment of the performance of these enterprises towards achieving their objectives.

In this paper, joint enterprises are defined as:

> . . . separately incorporated enterprises in which one of the parties is a government-owned enterprise and the other (or others) is either another government party (foreign or local) or from the private sector (foreign or local); and in which all investors commit capital assets, share some degree of management responsibility at some level and participate jointly in the full risks of the enterprise.[3]

The term "joint venture" is used synonymously with "mixed enterprise".[4] Equity participation in a joint enterprise tends to be more or less equally shared between the investors. It is different from an associated company in that the government has some degree of management responsibility and participates in the risks of the enterprise.[5] It is also different from an enterprise which has been transformed from private ownership and management to government ownership and management through a take-over bid and the acquisition of majority shares. The partnership arrangement is inherent in the joint enterprise from the start of its operation.

Information on joint enterprises is very scanty. Official figures estimate the number of wholly owned subsidiaries and joint enterprises at 600.[6] It is not known how many of these are in the agricultural sector. This study surveyed twenty-six

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wholly owned and joint enterprises which are engaged in agricultural activities[7] under some degree of government ownership and control.

The Rationale for Establishing Commercially Viable Enterprises in the Agricultural Sector

The setting up of regional development agencies after 1970 was a new strategy in rural development. Unlike the FELDA schemes which concentrated on agricultural development, the regional development agencies and the state economic development agencies were integrated schemes which planned for industrialization to take place at a later stage; agricultural activities would be followed by agro-based industries and later lead to manufacturing and other downstream activities. New towns would grow in the regions which would provide all the facilities available in the established urban areas. Thus, instead of the rural population drifting into the already over-populated cities, they would move to the new growth centres. The workers would work in the plantations or in factories and live in the new towns. The integrated regional development scheme would, therefore, introduce the rural population to modern technology and train them for the time when industrialization would take place. At the same time, employment in agricultural activities would fulfil the more immediate objective of reducing rural poverty.[8]

The integrated regional development programmes were designed to do more than the FELDA schemes — they would contribute towards achieving not only the poverty eradication target but also the more balanced redistribution-with-growth target. With regard to the former target, it was clear that the FELDA-type schemes had been largely responsible for increasing the Malay share in the modern agricultural sector. Malay share of ownership of assets in the modern agricultural sector in terms of planted acreage grew from about 0.6 per cent in 1953 to 14.1 per cent in 1970.[9] FELDA schemes aptly demonstrated that the advantages of large-scale centralized management such as that introduced in the plantation system far outweighed the advantages of alienating individual plots of land for cultivation by smallholders. But FELDA's attempt to combine the advantages of both the plantation and smallholding sectors by apportioning and distributing the land to the settlers once they had repaid their loans, created problems for the future management of the estates. The FELDA schemes also did not provide opportunities for the second generation to be employed.

The new commercially-run agricultural projects attempted to avoid these problems by not transferring land ownership to the workers. The workers would, however, benefit in terms of better housing and living conditions than those provided in the private estates and would also be trained in semi-urban occupations. In some cases, profit-sharing schemes and opportunities for workers to eventually own shares in the agricultural company were designed. In this way, it was envisaged that there would be no difference in the income levels of the FELDA settlers and the workers on these estates. Land ownership was, therefore, not seen

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as an important precondition for increasing the incomes of the rural population.

With regard to the target of increasing Malay ownership of assets in the modern agricultural sector, it was felt that the commercially-run agricultural projects would be able to contribute in terms of ownership of share capital. The FELDA and other smaller schemes had increased Malay ownership of assets in the modern agricultural sector in terms of planted acreage. The government hoped to increase Malay ownership of share capital in the modern corporate agricultural sector through two strategies: through government agencies directly purchasing shares in privately owned plantation companies, and through the setting up of public enterprises to engage in developing new land for agricultural purposes. This study focuses on the second strategy.

In the survey, information on twenty-six enterprises was obtained. They were six wholly owned government companies and twenty joint enterprises. All these enterprises were set up as subsidiary companies under public corporations or wholly owned government holding companies. Out of the total, thirteen were owned by regional development agencies, three by Food Industries of Malaysia (FIMA), and ten by state economic development corporations (SEDCs) (Table 1).

TABLE 1
NUMBER OF WHOLLY OWNED SUBSIDIARIES AND JOINT ENTERPRISES, BY SPONSORING AGENCY[a]

Sponsoring Agency	*Wholly owned Subsidiaries*	*Joint Enterprises*[b]	*Total*
Johore Tenggara Development Authority (KEJORA)	3	2	5
Pahang Tenggara Development Authority (DARA)	–	5	5
Trengganu Tengah Development Authority (KETENGAH)	–	3	3
Food Industries Malaysia (FIMA)	1	2	3
State Economic Development Corporations (SEDCs)	2	8	10
Total	6	20	26

[a] Sponsoring agency is the agency which has significant share interest.
[b] Includes companies which are jointly owned by two or more public enterprises.

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Table 2 shows the extent of government ownership. In most of these enterprises, the extent of government ownership is considerable: fourteen out of the twenty-six enterprises are either wholly owned by the government or are enterprises with government equity participation of 70 per cent or more of the total paid-up capital, while another eight are enterprises in which the government share of equity participation is 40–69 per cent. Only in four enterprises, all partially owned by the SEDCs, is the government ownership share less than 40 per cent.

TABLE 2
EXTENT OF GOVERNMENT OWNERSHIP, BY SPONSORING AGENCY

Sponsoring Agency	*100%*	*70—99%*[a]	*40-69%*	*Under 40%*
KEJORA	3	1	1	—
DARA	—	1	4	—
KETENGAH	—	1	2	—
FIMA	1	2	—	—
SEDC	2	3	1	4
Total	6	8	8	4

[a] Includes companies which are jointly owned by two or more public enterprises.

As shown in Tables 3 and 4, the main activity of these enterprises is rubber and oil-palm cultivation (eleven out of the twenty-six enterprises are engaged in this activity). In terms of acreage, out of a total of 245,650 acres owned by the twenty-six enterprises, 149,000 acres, or about half of the total acreage, are allocated for rubber and oil-palm cultivation, 74,500 acres for the cultivation of sugar-cane, fruit trees and other plantation crops, while the remaining 22,050 acres are for poultry and cattle farming. In terms of paid-up capital, the sugar-cane enterprises are the largest, with a total of $93.5 million and an average of $31 million in each enterprise.[10] The smallest enterprises in terms of paid-up capital are the poultry raising projects, with an average of only $2 million.

Government ownership in these enterprises amounts to $114.8 million, or 55 per cent of the total paid-up capital. More than two-thirds of this capital is invested in rubber, oil-palm, and sugar-cane cultivation. Although the government share of investment in fruit trees, spices and other crops is large (90 per cent), the amount is small in relation to the total amount invested.

Table 5 shows the type of partnership by paid-up capital. Eight enterprises have a paid-up capital of over $10 million, three have $5–10 million, while the rest have less than $5 million. Of the first group, only two are enterprises with foreign partnerships, one is owned by two public enterprises, while the rest are owned by domestic private enterprises.

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TABLE 3
WHOLLY OWNED SUBSIDIARIES AND JOINT ENTERPRISES,
BY ACTIVITY AND LAND ACREAGE

Activity	*Wholly owned*		*Joint Enterprises*		*Total*	
	No.	*Acres*	*No.*	*Acres*	*No.*	*Acres*
Rubber & oil-palm	4	86,500	7	62,600	11	149,100
Sugar-cane	—	—	3	57,500	3	57,500
Fruit trees, spices and other crops	1	850	6	16,150	7	17,000
Poultry rearing	—	—	2	250	2	250
Cattle farming	1	7,000	2	14,800	2	21,800
Total	6	94,350	20	151,300	26	245,650

TABLE 4
WHOLLY OWNED SUBSIDIARIES AND JOINT ENTERPRISES,
BY PAID-UP CAPITAL AND EXTENT OF GOVERNMENT OWNERSHIP

Activity	*Total Paid-up Capital*	*Total Government Paid-up Capital*	*Extent of Government Ownership*
	$	$	
Rubber and oil-palm (11)	66,489,000	45,994,000	69.2
Sugar-cane (3)	93,500,000	31,550,000	33.7
Fruit trees, spices and other crops (7)	27,786,000	25,005,000	90.0
Poultry rearing (2)	4,225,000	1,844,000	43.6
Total	206,489,000	114,872,000	55.6

Wholly-owned and Joint Enterprises: Organizational Structure and Management

The regional development corporations and state economic development corporations are established as public corporations with powers to set up companies to perform some or all of their functions. The usual pattern of organization is for the corporation to create a number of subsidiary companies under the Companies Act with powers to carry out certain activities. These companies may be wholly owned

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TABLE 5
WHOLLY OWNED AND JOINT ENTERPRISES,
BY TYPE OF PARTNERSHIP AND PAID-UP CAPITAL

Type of Partnership	*Over $10 million*	*$5–10 million*	*Under $5 million*	*Total*
Wholly owned	—	1	5	6
Joint Enterprises:				
Domestic public-foreign public	—	1	1	1
Domestic public-foreign private	2	1	2	5
Domestic public-domestic public	1	—	2	3
Domestic public-domestic private	2	—	2	4
Others (dispersed ownership)	3	1	3	7
Total	8	3	15	26

companies (that is, companies which are financed entirely by the corporation, which owns 100 per cent of shareholders equity), or joint enterprises (that is, companies which are partially financed by the corporation which usually owns about 30–70 per cent of the shareholders' equity). Sometimes the corporation establishes a holding company which holds shares in a number of sub-subsidiary companies which in turn may be wholly owned or partially owned companies of the holding company.

There are several reasons why this form of organization was considered the most suitable. Firstly it allowed the extent of government ownership to be flexible. Equity ownership could be varied according to special circumstances and the maturity of the company. For example, it allowed the government to increase its share in the company as it acquired technological know-how from the private partner. It also allowed the government to divest itself of some or all of its capital to private *bumiputra* entrepreneurs as is required under the New Economic Policy objectives.[11] Secondly, the separation between the development corporation and the enterprise allowed the latter to develop its own investment criteria and management techniques based on commercial principles without being unduly influenced by political and other factors. Thirdly, it gave the enterprise considerable flexibility in obtaining funds from private as well as government sources.

Although these enterprises were independent of the parent corporation, links were maintained through the corporation's ownership in the companies and,

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therefore, management participation. The Board of Directors representing all the major shareholders had powers to make decisions on policy matters. A team of managers was appointed by the Board to perform the tasks of day-to-day management. The chief executive (often called the General Manager) was responsible to the Board for the overall management. Being usually a member of the Board (with or without voting rights) he was the main link between the enterprise and the Board. Representatives of the parent corporation (or holding company of sub-subsidiary companies) were appointed directors of the Board. If the subsidiary company was entirely owned by the parent corporation or was a company with substantial government ownership, the Chairman of the Board could be a staff member of the parent corporation; otherwise, he could be appointed from another organization with substantial shareholding, or from outside, such as a prominent politician or businessman. The Board had powers to appoint the chief executive and senior staff members of the enterprise.

The initiative to invest in particular projects would come from the chief executive and his management team. Proposals and recommendations were made to the Board which considered them and made recommendations to the parent corporation for funding. If the Board of the parent corporation decided to accept the new projects, the matter was referred to the Treasury for funding. The usual pattern is for the parent corporation to provide funds in the form of equity capital and for the federal or state government to provide loans to cover operating and development costs. These loans are usually provided on terms and conditions that are recoverable from the clients. In the case of the regional development authorities, certain non-recoverable expenditures such as some of the land and infrastructure development costs may be financed from grants provided by the Federal Treasury. The SEDCs, however, receive financial assistance from the Federal Government only in the form of loans, although they do get limited grants from the respective state governments. In addition to those provided directly by the Treasury, loans may also be obtained from commercial banks. The Treasury may guarantee such loans to the parent corporation, which in turn guarantees loans to the individual enterprises. In the case of SEDCs, the state government may contribute the land as their share of equity. In other cases, the land belonging to the company is mortgaged to the lending agency as security against the loan. In the case of joint enterprises, funds are also available from the investment capital and from loans provided by the other investment partners.

The degree of management responsibility in joint enterprises depends on the extent of ownership of the partners. As the share of government ownership increases, the responsibilities for management also become greater. Generally, the government agencies would prefer to have a significant say in the running of the enterprise and, therefore, would ensure adequate management control through equity ownership. However, even when equity ownership is shared more or less equally among the various parties, the actual control over management may not

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reflect this equality of ownership. A cursory look at the management patterns in the enterprises covered in this study reveals three broad differences. These can be briefly described as follows:

1. Equity ownership is roughly equal between the partners but the private-sector partner has a greater share in management because of the recognition that he has more specialized knowledge of the business and experience in handling sales. The chief executive is appointed from the private-sector parent company and has full responsibility for day-to-day management. He is, however, responsible to the Management Board which consists of representatives from both partners.
2. Equity ownership is shared more or less equally between two *public* enterprises, but the effective day-to-day management is in the hands of one of them, usually the partner which initiated the project. In this case, management responsibility is in the hands of public enterprise officials.
3. Equity ownership is divided among several partners in such a way that ownership is diffused. The responsibility for management is taken over by the public-sector partner by agreement with the other partners, many of whom are co-operative societies and finance companies. These groups have little business knowledge or expertise and are interested mainly in investing funds in enterprises without sharing management responsibility.

Of the twenty joint enterprises covered in the study, ten fell into the first category, three into the second, and seven into the third. Most of the joint enterprises with foreign participation belonged to the first category. This is not unexpected as the main reason for their participation is their expert knowledge and the possibility of technology transfer. It appears that joint enterprises with foreign participation tended to be involved in agricultural activities that are relatively new to Malaysia — such as large-scale cultivation of sugar-cane, lowland tea and spices, and large-scale cattle farming — rather than in the more established activities of rubber and oil-palm cultivation.

There are several reasons why both the public and private enterprises would be attracted by the idea of joint ownership of the kind described in the first management category. The advantages for the public enterprise are many: it can gain control of the joint enterprise with less investment than would be needed for a wholly owned enterprise; private business efficiency may be infused into the undertaking; and it may be a way of combining "private efficiency with desirable public control".[12] The private enterprise, on the other hand, gets a guarantee of government support and the expectation that, to say the least, its treatment by the government will not be less favourable than that accorded to other private firms. However, there are also drawbacks, and, in the worst case, the result might be "a bastardized organ which can neither optimize self-interest nor fully serve the public interest".[13]

The reasons for the second management type are less clear. In some cases,

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these enterprises may be created by federal and state public enterprises. The state corporation may provide equity capital equal to the value of the land which has been alienated, while the federal corporation provides the financing in the form of equity capital and loans. In these cases, effective management is usually in the hands of the federal government agency.

Those in the third category are really composite enterprises in which ownership is diffused among several investors. In some cases, the other "partners" are statutory authorities with welfare objectives, or government-owned investment companies. These organizations (such as the Lembaga Tabung Angkatan Tentera or the Armed Forces Fund Board, and the Yayasan Islam Trengganu or the Trengganu Islam Foundation) have welfare or religious objectives but engage in commercial activities to augment their incomes. The reasons for the third category are largely political; in several cases the joint ventures are the result of an agreement with the state government, as a condition for the alienation of the land, that the government-sponsored organization be invited to participate in the venture. In other cases, it is the result of the influence of powerful interest groups at federal and state levels who hope to benefit from government-sponsored projects.

Achievement of objectives

FINANCIAL OBJECTIVES

As these enterprises have been established for the purpose of increasing Malay ownership of wealth in the modern corporate agricultural sector and providing employment to the rural workers, they are expected to accumulate profits which can be retained for re-investment in the enterprise and for distribution to the workers in the form of bonuses and other schemes, or transferred to the parent corporation for further investment in other ventures. These enterprises are also expected to be turned over to Malays (private individuals or firms) so as to create a Malay entrepreneurial class. Thus, the primary objective is profit maximization. Since these enterprises are commercially oriented, the yardsticks used in private business to measure financial performance and profitability are appropriate. And if information is available, it may be possible to make comparisons of costs and financial performance between these enterprises and private enterprises as well as other public sector agencies which are engaged in similar activities and were established at about the same time.

Before the financial performance of these enterprises is analysed, however, it is important to note the limitations of the study. Firstly, the data collected may not provide a complete picture of the financial performance of these enterprises. Secondly, there is the possibility that the balance sheet may not reflect the true financial situation of the enterprises. There may be a tendency for the managers to try to conceal profits in order to avoid paying taxes or dividends. This possibility, however, is unlikely in most of the enterprises in this study because their losses are

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quite significant and there appears to be little likelihood that profits were actually made. In fact, it is likely that the financial situation is much worse as the real value of the assets may have declined as a result of the poor financial performance, so that figures based on the par value may be misleading. Thirdly, there is the possibility that the reported figures of production and sales of output may be smaller than actual performance because of corruption within the enterprise, resulting in "leakages" before sales are officially recorded. Thus, the comments on performance can be only rough indications of the situation in these enterprises.

Information on the financial performance of these enterprises is given in Tables 6, 7, 8, and 9. As is clear from the tables, these enterprises were incurring losses and were in a dismal financial state. Only two out of the twenty-six enterprises earned income before tax and interest payments, and only one was clearly making profits after deducting all expenses including tax and interest payments. The only financially successful enterprise was a poultry-farming industry with a paid-up capital of $2.5 million. In 1980 alone, it earned profits of $1.1 million, after tax payments. By 1980 it had accumulated profits of nearly $2 million. All other enterprises incurred substantial losses. The net losses for the year amounted to $40.4 million, and the cumulative losses amounted to a staggering $123 million — almost equal to the government's total contribution in the form of equity capital. The losses in the sugar-cane projects alone amounted to $91 million. It is, therefore, not surprising that the government has already taken action to close one enterprise and to review others. Losses have also been sustained in the rubber and oil-palm projects. Some of these losses may have been due to the fact that many of these estates had fairly young trees which had not yet reached maturity, so that the financial situation would improve as more trees came into production. But this is clearly not the only reason for the losses. Even oil-palm plantations established as early as 1974 were still incurring losses. If profit maximization was the sole objective of the investment, it appears to have failed.

What are some of the problems that may have been responsible for the poor financial performance? We have listed the problems into five categories:

1. High development and operating costs;
2. Poor management;
3. High financial expenses;
4. Labour problems;
5. External factors.

High Development and Operating Costs. A comparison of data on development costs in rubber and oil-palm projects in these joint enterprises with those in the private-sector estates and in FELDA schemes revealed that development costs of the first group are much higher. For example, development costs in these estates were about $3,750 per hectare compared with $3,500 for FELDA, and $3,140 for private-sector estates. One explanation for the higher costs may be the distance

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TABLE 6
FINANCIAL PERFORMANCE (SUMMARY) OF WHOLLY OWNED AND JOINT ENTERPRISES

	Total Paid-up Capital ($)	*Net Income (Loss) before tax & financial exp., 1979–80 ($)*	*Net Income (Loss) after tax & financial exp., 1979–80 ($)*	*Cumulative Profits (losses) ($)*	*Rate of Return on Capital before tax & financial expenses (%)*	*Rate of Return on Capital after tax & financial expenses (%)*
Wholly owned (6)	18,883,000	(4,291,000)	(5,749,000)	(11,230,000)	(22.7)	(30.4)
Joint (2)	187,606,000	(24,310,000)	(34,668,000)	(111,906,000)	(13.0)	(18.4)
Total	206,489,000	(28,601,000)	(40,417,000)	(123,136,000)	(13.9)	(19.6)

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TABLE 7
FINANCIAL PERFORMANCE OF WHOLLY OWNED AND JOINT ENTERPRISES, BY ACTIVITY

	Paid-up Capital ($)	*Total Net Income (loss) before tax & financial exp.* ($)	*Total Net Income (loss) after tax & financial exp.* ($)	*Cumulative Income (loss)* ($)	*Rate of Return on Capital before tax & financial expenses* (%)	*Rate of Return on Capital after tax & financial expenses* (%)	*Total Assets Employed* ($)	*Rate of Return on Assets Emp. before tax & financial expenses* (%)	*Rate of Return on Assets Emp. after tax & financial expenses* (%)
1. Rubber & oil-palm									
KEJORA (2)	12,107,000	(1,503,000)	(2,955,000)	(5,893,000)	(12.4)	(24.4)	39,376,000	(3.8)	(7.5)
DARA (3)	18,000,000	(2,134,000)	(2,820,000)	(6,432,000)	(11.9)	(15.7)	35,311,000	(6.0)	(8.0)
KETENGAH (3)	29,600,000	(1,428,000)	(1,548,000)	(2,105,000)	(4.8)	(5.2)	40,926,000	(3.5)	(3.8)
SEDCs (3)	6,782,000	(2,323,000)	(2,351,000)	(4,730,000)	(34.3)	(34.7)	76,356,000	(3.0)	(3.1)
Total (11)	66,489,000	(7,388,000)	(9,674,000)	(19,160,000)	(11.1)	(14.5)	191,969,000	(3.8)	(5.0)
2. Sugar-cane (SEDCs) (3)	93,500,000	(20,278,000)	(29,385,000)	(91,262,000)	(20.2)	(31.4)	174,899,000	(11.6)	(16.8)
3. Other crops (SEDCs) (7)	27,786,000	(1,055,000)[a]	(1,272,000)	(3,943,000)	(4.6)	(4.6)	14,336,000	(7.4)	(8.9)
4. Cattle farming (3)	14,489,000	(1,008,000)	(1,121,000)	(8,223,000)	(8.6)	(7.7)	21,580,000	(5.8)	(5.2)
5. Poultry farming (2)	4,225,000	1,128,000	1,035,000	(548,000)	26.7	24.5	6,776,000	16.6	15.3
All enterprises (26)	206,489,000	(28,601,000)	(40,417,000)	(123,136,000)	(13.9)	(19.6)	409,560,000	(7.0)	(9.9)

[a] Excludes one enterprise (no trading).

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TABLE 8
PERFORMANCE OF WHOLLY OWNED AND JOINT ENTERPRISES, BY SPONSORING AGENCY

	Rate of Return on Capital before taxes & financial expenses (%)	*Rate of Return on Capital after taxes & financial expenses (%)*	*Cumulative Profits (losses) ($)*
Wholly owned enterprises			
KEJORA (3)	(14.8)	(25.1)	(6,649,000)
FIMA (1)	(19.0)	(10.0)	(99,000)
PKEN (2)	(47.8)	(48.5)	(4,482,000)
Total wholly owned	(22.7)	(30.4)	(11,230,000)
Joint enterprises			
KEJORA (2)	(15.4)	(17.2)	(1,496,000)
DARA (5)	(7.4)	(11.0)	(13,899,000)
KETENGAH (2)[a]	(4.8)	(5.2)	(2,105,000)
PKEN (10)	(14.9)	(23.7)	(94,406,000)
Total joint	(13.0)	(18.4)	(111,906,000)
All enterprises	(13.9)	(19.6)	(123,136,000)

[a] Information on one was not available.

TABLE 9
PERFORMANCE, BY EXTENT OF GOVERNMENT OWNERSHIP

Extent of Government Ownership	*Total Paid-up Capital ($)*	*Total Net Income (after tax) 1979/80 ($)*	*Profit (or Loss) (cumulative) ($)*	*Rate of Return after tax (%)*
Wholly owned subsidiaries (100%) (6)	18,883,000	(5,749,000)	(11,230,000)	(30.4)
Joint enterprises				
70% and above (8)	78,211,000	(11,948,000)	(44,014,000)	(15.3)
40% — 69% (8)	42,200,000	(3,241,000)	(9,684,000)	(7.7)
under 40% (4)	67,195,000	(19,479,000)	(58,208,000)	(29.0)
Total joint enterprises	187,606,000	(34,668,000)	(111,906,000)	(18.4)
Total enterprises	(206,489,000)	(40,417,000)	(123,136,000)	(19.6)

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from the towns and the relatively small size of the estates compared with those of FELDA and the private sector. For example, because of its large size, FELDA has been able to negotiate with private contractors rates considerably lower than these estates. FELDA has also been more influential in making arrangements with other government agencies to carry out part of the infrastructural development at no financial cost to it. Another explanation for the higher costs may be that the remoteness of these areas requires jungle land to be cleared, swamps filled, and drainage works carried out. But even if these higher development costs are necessary in some cases, they are not justified in all cases. There is evidence to indicate that these public entrepreneurs are not cost conscious. For example, we were surprised to find that many of these enterprises had not compared their costs with those incurred for similar work in private-sector or FELDA estates.

Higher costs may also be caused by the nature of the activities carried out. For example, in the case of pioneer projects that are relatively new to Malaysia, such as sugar-cane and lowland tea cultivation and large-scale cattle farming, it is likely that higher costs are involved than in more established plantations. As one enterprise manager explained:

> [Consideration of costs] is a field in which we have little experience on which to base reliable calculations. The techniques we are being forced to adopt in Bukit Ridan have not been tried before. One factor which must be recognised is that at the present time labour productivity in the Pahang Tenggara area is significantly lower than the established West Coast areas and this together with other factors such as the non-availability of good artisans, distance and poor communications inflate costs and make it difficult to achieve set goals. Current estimates indicate that the cost of bringing tea into production is going to be between $5,000 and $6,000 per acre, not including factory facilities and mechanical field equipment. We do not yet know what the cost of production is going to be because we have no experience yet of the cost of operating harvesting machines under the sort of conditions which exist on Bukit Ridan.[14]

The situation may be aggravated by the higher administrative costs of setting up projects in isolated areas. In cases where no telephone lines are provided, all communication has to be done by courier services between the nearest town and the site office. Other enterprises maintain two offices, one in the town and the other on the site. The lack of telephones also means that officers have to travel long distances to carry out their normal business, thus wasting time and money. In some enterprises, transportation is provided to take the children of employees to and from school as the distances between their homes and the nearest school are often considerable.

Higher costs may also be due to the joint-venture agreement which requires the enterprise to buy some of its inputs from the private-sector parent enterprise, or to sell its product only to the parent enterprise, or to pay certain fees (such as licens-

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ing, management and training, and marketing fees). Of course, one cannot assume that these payments are excessive or that the private-sector partner is exploiting the new enterprise. There is some evidence, however, that in joint ventures with public enterprises, private enterprises tend to safeguard their own interests by ensuring that they derive benefits from other channels besides profits — through either the purchase or sale of goods and services from or to the enterprise.

Private investors may be reluctant to form joint ventures with public enterprises for fear that politics may be a constraining factor to maximizing profits, but if they are able to benefit indirectly from the enterprise in the form of non-dividend flows between the enterprise and the parent company, they may not be unduly worried about reduced profits or even losses incurred by the enterprise. The government partner, then, is the only loser. The private enterprise partner may not even see the new joint venture as a viable enterprise before it decides to invest in it. For example, a large multinational company may have subsidiary companies in which the extent of ownership varies.

The parent company is also likely to make decisions that will increase its overall profits rather than be concerned about the profits of a single enterprise, particularly if it is a joint venture in which another partner is likely to benefit from the profits. In other words:

> If it has the option of generating profits in a 100%-owned subsidiary as opposed to a joint venture, one would expect it to choose the former. Why share it? If it is in a controlling position in the joint venture, the parent firm can dictate prices of goods and services moving in both directions to the extent permitted by taxing and customs authorities. . . . A non-controlling local partner is obviously at the mercy of the foreign partner.[15]

Poor Management. The regional development authorities and the state economic development authorities suffer from the lack of adequately trained managerial and technical staff and are, therefore, at a severe disadvantage when bargaining with private-sector firms. The public authorities usually insist on majority share ownership hoping that in this way they would be able to exercise some degree of control at the Board level over the private-enterprise partners. But even with majority interest it is not easy to effectively control the extent of transfer pricing as some public-enterprise directors do not have sufficient knowledge of day-to-day management. And even in cases where the Board has veto powers over all such transfers it might not be in a position to recommend buying at the lowest price and selling at the highest on the open market if the goods and services required are not available on the external market or if the only channel for the distribution of the goods and services is the parent private firm itself.

The relatively weak management position of the public authorities can also be seen in the way investment decisions are made. Because of the need to produce

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results quickly and the lack of technical detail, several projects are undertaken without adequate feasibility preparation. In many cases, projects are assessed without adequate information. Most important is that information is not available on a range of alternative projects so that one can select the most suitable. Almost any project that fits into the master plan and appears to be commercially viable is approved by the Board with very little pre-investment scrutiny. There are no clear guidelines or investment criteria for the selection of investments based on cost-effectiveness. In many cases, the feasibility studies on which the calculations of expected profits over time are made are prepared by the potential private enterprise partner and accepted by the Board without independent assessment. There have been cases when, after several years of losses, independent assessors have come to the conclusion that the project was not financially viable and should not have been started in the first place. Comments of this nature were made by the Federal Treasury on the sugar-cane plantations in Negri Sembilan where recent investigations have revealed that substantial costs in terms of labour and soil improvement should have been taken into account in assessing the sugar-cane project. A similar conclusion was arrived at with regard to the large-scale cattle farms operated by Majuternak, which led eventually to its closing down and the transfer of the farms to the Department of Veterinary Services. It remains to be seen whether a similar fate awaits the cattle farms operated by the regional development agencies.

High Borrowing Costs. Insufficient equity capital in many enterprises has resulted in the necessity to finance a large part of the operations from loan capital. In fact, regional development agencies and state economic development corporations seem to prefer to finance the projects of their subsidiary companies by keeping contributions to equity capital small and obtaining loans from the Federal Government to finance a large part of the investments. In this way, the limited funds can be spread over several projects. Apart from spreading risks, investments in several projects tend to improve the image of the public enterprise as an agency involved in a wide range of activities especially as all these projects would be listed and described in the annual reports.

The temptation to finance projects from loans rather than equity capital is strong, because of the relative ease in obtaining loans on generous terms. Loans from the Treasury for agricultural development usually have a grace period of about 15 years before interest is charged. Low interest rates (much lower than the market rates) are another incentive for resorting to loan capital. Even the joint enterprises tend to rely heavily on loan capital. The private partners also see advantages in borrowing from the Federal Government rather than making a higher contribution to equity capital. In some cases, loans are obtained from commercial banks. But even in these cases, the loans are usually guaranteed by the Federal Government and, because of this, are given easily and on fairly generous terms.

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Paradoxically, the relative ease with which these enterprises are given loans is the root of their financial problems. These enterprises tend to borrow heavily so that they have high gearing ratios (the ratio of debt to capital) and have to pay high interest charges that no private firm in the same business could reasonably be expected to bear. The ratio of current liabilities to current assets is also much higher than would be considered "safe" in most private firms. The only reason that these enterprises can survive is that the lending agency (which is invariably the Treasury) has not been strict in enforcing the terms of the loans. In many cases, repayments and interest are not paid when they are due.

Apart from problems resulting from inefficiencies in the allocation of resources (which will be discussed in the last section), these enterprises have unsound financial structures and severe cash-flow problems. Table 10 shows the liquidity position of these enterprises. Only five out of the twenty-six enterprises appear to be in a financially sound position to meet these liabilities. The others would need financial assistance. But if this assistance is in the form of loans, the additional debt financing would increase their financial burden and thus would create more problems in the future.

TABLE 10
LIQUIDITY POSITION OF WHOLLY OWNED SUBSIDIARIES AND JOINT ENTERPRISES

	Current Assets excl. Stocks	*Current Liabilities*	*Acid Test Ratio*
KEJORA (5)	4,000,000	3,409,000	1.17
DARA (5)	2,929,000	7,841,000	0.37
KETENGAH (3)	2,775,000	3,390,000	0.82
FIMA (3)	153,000	5,460,000	0.03
SEDCs (10)	20,416,000	86,970,000	0.23
Total (26)	30,273,000	107,070,000	0.28

Obviously, the answer to the problem is to make a detailed investigation into the financial position of the enterprise and decide whether or not it should be allowed to continue to operate. Those which are not making profits but are expected to do so in the future and those which generate social benefits greater than their financial costs should be allowed to continue; others which are unlikely to generate direct or indirect benefits greater than their costs should be liquidated. But it is also important that the right type of financial assistance is given. For example, types of expenditures that are regarded as of a developmental nature should not be financed from loans. In regional development projects, developmental costs which can reasonably be regarded as part of general development should be financed from grants instead of loans. Loans should be used to finance

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expenses that can be recovered from the normal business operations of the joint enterprise.

Labour Problems. Shortage of labour was mentioned by several managers as one of the main reasons for shortfalls in production targets. This is a problem which affects not only the public-sector plantations but also those in the private sector. But the public sector plantations, such as those which compete with private-sector plantations for agricultural labour, are at a disadvantage. They cannot provide the same social amenities and "perks" that the established plantation companies are able to offer and they are located in areas far away from the towns. These enterprises are also at a disadvantage when competing for labour with the FELDA schemes as potential workers prefer to become FELDA settlers rather than work in the plantations. (The reasons for this will be discussed in the last section of this paper.) From the management point of view, the shortage of labour is only one aspect of the personnel problems that it has to face; the lack of discipline, unwillingness to be trained and other negative attitudes towards work are some of the problems affecting labour productivity. Part of the problems of personnel may be due to the fact that the majority of the workers employed in joint enterprises tend to regard their employers as agents of the government. Attempts by managers to fix work schedules and production targets and impose work discipline are resented strongly by the workers. For example, in a certain enterprise, the foreign manager complained that workers did not have the discipline to meet production targets. In his daily rounds he caught a number of workers gambling in the fields instead of working. When he attempted to take disciplinary action against them they appealed to the public-enterprise management partner to intervene on their behalf. As the matter had important political implications it was agreed to drop disciplinary charges against the workers.

Low levels of production were also the result of poor manpower planning. Regional development agencies were designed to allow for the growth of new town centres within the area. It was envisaged that workers would live in these towns and work in the plantations nearby. In this way the workers would have the benefits of modern urbanized living while at the same time develop a sense of community. The social ills of the colonial-type plantation with its labour lines and locked-in communities would, therefore, be avoided. However, new problems for the management were created. Firstly, the management did not have the same control that they had over the workers, as they now lived outside the plantations. Daily-paid workers who lived in the new town centres and worked in the nearby estates had greater flexibility in deciding whether or not to work and where to work. Consequently, the turnover was high. This also affected production. Most of all, the management could not rely on an adequate labour supply especially at busy periods. This was a serious problem in the estates which were labour intensive, such as those which cultivated rubber, lowland tea, spices, and sugar-cane.

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Secondly, agricultural workers tended to insist on regular hours of work because of the transport difficulties in getting to and from work. This meant that some kinds of work, such as applying fertilizers, water, and insecticides, could not be carried out in the early mornings or late evenings which were the best times for these activities. The absence of the work-force in the evenings also created problems of security, as there were not enough workers to look after the estates. In the cattle farms, several heads of cattle were reported lost — whether they were stolen or attacked by elephants, no one really knew.

External Factors. There is no doubt that, to some extent at least, the poor financial performance of many of these enterprises are due to the general world recession which has reduced the demand for rubber and oil-palm. But as low world prices for rubber and oil-palm would adversely affect the whole industry and not only public enterprises, it may be possible to compare the performance of these enterprises with others in the same activity and at the same stage of production to assess whether public enterprises are at least as efficient as private enterprise. There may also be other external constraints which public enterprises have to work with and these should be taken into account. For example, in choosing the type of agricultural activity, self-sufficiency goals may have been given priority over purely commercial goals. The decision to establish cattle breeding farms, for instance, instead of using the land for growing oil-palm or rubber may have been made because of the need to become more self-sufficient in beef production, even though the rate of return on oil-palm production may be much higher. In such cases, one can discuss the policy in terms of financial and economic costs, but from the point of view of the particular enterprise, the decision to set up a cattle breeding farm is a given factor and cannot be changed. There are also external factors, such as the low interest rates that public enterprises enjoy, or the fact that they are given land at prices well below the true market rate, and these should also be discounted when making comparisons of financial performance between public and private enterprises.

There may be other external factors that either discriminate against these enterprises or give them explicit preferential treatment. For example, public enterprises may not have the same degree of freedom as private enterprises to make management decisions. There may be considerable political interference which prevents them from making decisions based solely on economic or financial criteria. In some cases, public enterprises may have some advantage over private enterprises in access to funds at relatively easy terms, but this advantage may be offset against the disadvantages of being required to locate these industries in remote areas where there are inadequate infrastructure and supporting services. Thus, although the financial performance of these public enterprises may not be impressive, they may still be justified because they achieve broader socio-economic goals.

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Socio-economic Objectives

Under the New Economic Policy, regional development is considered an important means to achieve overall economic, social, and racial balance. Unlike the FELDA-type schemes which emphasized land ownership, the regional development authorities (both SEDCs and regional authorities such as DARA, KEJORA, and KETENGAH) emphasized the need to give rural workers higher incomes and opportunities for employment in agricultural and non-agricultural occupations, and to provide the same social amenities as those available in the urban areas. The strategy of creating new town centres within the regional development areas was introduced so that workers could live in the new towns and work either in the surrounding plantations or in the new factories and small and medium-scale industries. In this way, through federal assistance, regional imbalances between the states would be reduced.

The schemes, however, do not seem to have had much success in attracting people to the regional development areas. In the DARA area, for example, the master plan estimated a population of 380,000 by 1980 and 500,000 by 1990, but by the end of 1980 the settler population was no more than 44,000.[16] On the whole, Malays have not been attracted to work in commercial plantations. They seem to prefer operating their own land or moving into FELDA-type schemes. Thus, many of the regional development schemes have failed because of a high labour turnover. Moreover, the remoteness of the areas and the inadequate facilities have contributed to the labour shortage and immobility. In some cases, it was shown that problems of recruiting labour and making it attractive for them to stay were of crucial importance to the success of the venture. In a survey conducted by DARA, it was shown that even those who were attracted into the area became dissatisfied with the conditions and expressed the desire to leave. Studies on DARA[17] and KEJORA have revealed the discontent of the workers. According to Chan and Lim,

> In the Kejora context, even the first generation appears dissatisfied with conditions in the scheme, particularly with the lack of land ownership. Even the first generation have expressed some desire to leave, if possible, for FELDA schemes.[18]

The lack of land ownership in these schemes would not be a serious problem if it could be offset by higher incomes, better housing, and other attractions. But this has not been the case. There has been little infrastructure development and public utility services to compensate the rural worker for leaving his home town for these remote regions. Thus, there have not been enough incentives to draw people into the regions, resulting in severe labour shortages in many of the estates. One writer, commenting on this problem encountered in the KETENGAH scheme, summed it up in these words:

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> Unless incentives are attractive and compelling enough in comparison with incentives and pull factors of other areas, it is unlikely that Trengganu Tengah can attract any hold on to the workers and settlers. This is especially pertinent and serious in the private sector agricultural projects and estates where the workers have no land ownership rights.[19]

Thus, the favourable multiplier effect of regional development programmes on the rest of the economy have not taken place to the extent expected. Part of the problem has been the inability to attract rural people because of the remoteness and lack of facilities. Yet, the reason often given for the lack of facilities and communications is that there have not been enough people to justify the expenses on infrastructure development! An example of this circuitous reasoning was seen in the proposal to establish a school in one of the new towns. The Ministry of Education was approached but felt that there were not enough children in the new town to justify the establishment of the school. The children were therefore sent forty miles away to the school in the FELDA scheme. Eventually, when more families settled in the new towns it was felt that a new school could be justified. But by then, many children were already in schools in other areas and were not prepared to change schools.

On the whole, the regional development agencies, including state economic development corporations, have not been able to provide adequate funds for the development of infrastructure at the scale necessary to make the schemes successful. In this respect, FELDA has had greater success. The close interest taken by the political leaders, especially Tun Abdul Razak in FELDA when it was first set up, provided FELDA with the necessary political clout to ensure success. Bureaucratic procedures were shortened and federal-state co-operation obtained so that much of the infrastructure developed was provided by other agencies at the time and place determined by FELDA. FELDA also did not have the problem of labour shortage and was able to plan in a systematic way for the arrival of the settlers. In contrast, the regional development authorities were provided with inadequate funds to implement the ambitious programmes planned for them by foreign consultants. In the case of the SEDCs, as federal assistance was mainly in the form of loans which had to be repaid and state grants were very limited, it was not possible to inject the necessary funds for the general development of the state in terms of infrastructure services.

Apart from the difficulties of achieving these socio-economic objectives, the enterprises at times unintentionally generated negative social effects. For example, in a small survey carried out by DARA, only 31 per cent of the respondents replied that their current income was higher than before they entered the scheme.[20] The shortage and high turnover of labour has also resulted in the farming out of labour-intensive jobs such as rubber tapping, clearing of land, and harvesting of crops to contractors and sub-contractors who carry out the work using illegal

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immigrant labour. The social cost of using these methods need to be assessed and matched against the benefits gained.

An assessment should also be made of the social cost of denuding the forest of valuable timber. In fact, because these enterprises are given land at very little cost to them, the real value of the land is not taken into account in appraising alternative investments, thereby resulting in a bias towards projects that use land more extensively and causing a misallocation of resources.

Thus, in evaluating the success of enterprises in achieving their social objectives, the costs involved must be matched against the social benefits, in the same way as income generated is matched against the costs incurred when assessing their success in achieving their financial objectives. In this way, one can avoid the rather loose accountability that allows enterprises to disguise poor management performance and inefficiencies as costs for rendering social services. There is, of course, no doubt that some social objectives have been achieved in terms of employment, training, and multiplier effects. But in evaluating the performance of public enterprises in the achievement of their developmental goals, one should not be contented merely to note that some contribution has been made to development. As one writer, commenting on a Nigerian public enterprise, put it:

> The question in its proper form is not whether the corporation did or did not contribute to development but whether, given the circumstances and the possibilities . . . it did contribute as much or as seriously as it ought to or was capable of.[21]

Overall Appraisal and Conclusions

In appraising the overall performance of these enterprises it is important to look at possible alternative forms of investment in the agricultural sector — that is, to take into account the opportunity costs involved in the uneconomic deployment of scarce resources. In principle, the nation's investment resources should be distributed in such a way as to ensure that benefits from such investment exceed the opportunity cost of the resources employed; that is to say, that they exceed the benefits that could have been realized by employing the same resources in the best alternative use. The true cost of scarce resources should be imputed in the calculations, and not merely what the enterprise pays for them. This is important especially in assessing the effective cost of land. The opportunity cost of land seldom enters into the appraisal of public-enterprise investment projects. It is also important to assess the effective cost of money. The relative ease with which these enterprises may have access to funds without having to pay the real financial charges for its use may result in the misallocation of scarce resources, as the effective cost of money to the enterprises is bound to influence the uses to which it is put: for example, the choice between capital and labour-intensive technology, the selection of risky projects compared with those with more certain outcomes, the selection of projects which use land more extensively as opposed to those that do not.

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In other words, enterprises which are expected to operate in a competitive business environment must actually do so. It is important that the choice of investments be carefully made so that the enterprises can stand on their own feet and not be dependent on the government for subsidies and indirect assistance. This means that there should be more effective controls to ensure that proper pre-investment investigation and feasibility studies are made before action is taken to set up the new enterprises. This will avoid the problem of injecting more money into an enterprise which should never have been set up in the first place. In the case of the regional development corporations, it has been possible for the parent corporation to set up subsidiary companies with relative ease so long as the initial capital comes from the parent corporation and not the Treasury. In the case of the state economic development corporations, the close link between the corporation and the state government (with the personal influence of the Mentri Besar who is also the chairman of the SEDC) there is a danger that the choice of investment projects may be based on political rather than rational economic criteria.

It is therefore important that proper investment criteria be laid down so that enterprises do not enter into projects without adequate pre-investment investigation. Enterprises which operate in a competitive business environment and are created for commercial reasons should follow as far as possible the prevailing market conditions and be assessed according to normal business practices. In this way, the controlling parent corporation and the government can judge the performance of these enterprises. Once the guidelines for measuring performance are clearly laid down, the enterprises would then be expected to make a concentrated effort to find the most efficient means for achieving the objectives. There would then be no need to impose bureaucratic procedures which are supposed to control the effective use of funds but which in effect create delays and inefficiencies.[22]

In the case of the public enterprises studied in this survey, it can be assumed that they were set up mainly as commercial enterprises. It is therefore necessary to find out why they are not making profits and what can be done to ensure that they do make profits in the future. If they are unlikely to make profits even in the future it may be necessary for the government to decide whether the net social benefits derived are sufficient to offset the financial losses. If they are not, it may be better to close them down. In many cases, however, it may not be necessary to close down the enterprises, but to monitor their progress more closely to ensure success. In some cases, it may even be necessary to inject more money and to provide better management services. Several joint ventures should be able to improve their financial position through a larger contribution from the private sector partner in the form of equity capital. The government should not be unduly concerned about owning less than 50 per cent equity capital so long as there is adequate control. But effective control is impossible unless and until a proper system for measuring performance is devised for the different public enterprises. It is in this area that the government should begin its task of introducing greater efficiency and productivity in public enterprises.

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NOTES AND REFERENCES

1. The data collected for this paper refers only to Peninsular Malaysia.
2. FELDA was established in 1956 to resettle rural people without land or with uneconomic holdings in plantations where they would have ownership of land and at the same time benefit from the efficiencies of large-scale production. See especially Shamsul Bahrin and P.D.A. Perera, *Felda: 21 Years of Land Development* (Kuala Lumpur, n.d.), and I.M.D. Little et al., *Social Benefit Analysis and the Kuala Oil Palm Estate* (OECD, 1972).
3. This definition is a modified version of that used by Robinson to describe an international joint venture. See Richard D. Robinson, "Major issues in Joint Ventures between Developed and Developing Countries", in *Joint Ventures and Public Enterprises in Developing Countries*, edited by V.V. Ramanadham (International Center for Public Enterprises in Developing Countries, Ljubljana, 1980), pp. 65–84.
4. Musolf distinguishes between joint and mixed enterprises: "Where participation is entirely from either the public or private sector, the term *joint* enterprise is employed. A *composite* enterprise is one in which there is intersectoral linkage across national boundary lines. *Mixed* enterprise is reserved for a venture which is both domestic and intersectoral". See Lloyd Musolf, *Mixed Enterprise: A developmental perspective* (Lexington Books, 1972), p. 3.
5. The government may, however, acquire shares in private-sector companies purely as investments without acquiring controlling interest. These enterprises are excluded from this study.
6. Datuk Mohd. Saffian bin Haji Abdul Majid, *The Role of the Public Enterprises in Malaysia and their Function in Meeting the New Economic Policy Targets* (Paper presented at the Seminar on the Role of Public Enterprises, Institut Tadbiran Awam Negeri, 16 September 1978), p. 7.
7. It must be pointed out that several government corporations undertake agricultural activities directly and not through subsidiary companies. These activities are excluded from this study as they are not carried out through wholly owned subsidiaries or joint enterprises.
8. For a general discussion of the regional development, see the various Economic Development Plans. A more detailed study can be found in K.C. Cheong et al., "Regional Development in Malaysia", in *Regional Development in Southeast Asian Countries* (Regional Development Research Unit, Institute of Developing Economies, Tokyo, 1979).
9. Lim Chong Yah, *Economic Development of Modern Malaysia* (Kuala Lumpur: Oxford University Press, 1967), p. 117; and *Mid-term Review of the Second Malaysia Plan 1971–75* (Kuala Lumpur: Government Printer, 1971), p.12.
10. The sugar-cane plantations also have sugar refineries, which account for the large capital.
11. There are two prongs to the New Economic Policy introduced in the Second Malaysia Plan — firstly, the eradication of poverty irrespective of race and, secondly, the increased participation of Malays in the modern sector of the economy, in ownership of assets, and in employment. The plan envisaged that Malay ownership of assets in the corporate sector would increase from less than 3 per cent in 1970 to 30 per cent by 1990.
12. Musolf, op. cit., pp. 125–26. He also lists the possible drawbacks.
13. Frank P. Sherwood, *The Problem of the Public Enterprise* (Comparative Adm. Group Occasional Paper, Bloomington, Indiana, 1966), p. 6.
14. "Tehdara-Bukit Ridan Estate tea project. Assessment", mimeographed (October 1980).
15. Robinson, op. cit., p. 71.
16. *Asian Finance*, 15 October 1981.
17. "Mu'adzam Shah Social Survey Results", mimeographed (DARA, 1978).
18. Paul Chan and Lim Lin Lean, *Case Study of Migrant Settlers in Three Land Development Schemes in Peninsular Malaysia* (Faculty of Economics and Administration, University of Malaysia, 1981), p. 440.

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19. Ling Chu Poh, "Incentives for Potential Workers and Settlers: A concern for socio-economic research in Trengganu", *Development Forum* 7, no. 1 (June 1977).
20. "Mu'adzam Shah Social Survey Results" (DARA, 1978). It is interesting to note that a similar survey carried out on FELDA settlers revealed that as much as 65 per cent of the respondents replied that their current income was higher than before they entered the scheme. See Gan Che Ng, "From Socio-economic Development to Ecodevelopment — Further Insights into Felda Schemes" (Paper prepared for the Asian Studies Association of Australia, Fourth National Conference, Monash University, 10–14 May 1982).
21. O. Teriba, "Development Strategy, Investment Decision and Expenditure Patterns of a Public Development Institution: The Case of Western Nigeria Development Corporation, 1949–1962", *The Nigerian Journal of Economic and Social Studies* 8, no. 3 (July 1966): 257.
22. "Report on Guidelines for Public Enterprise in the Fourth Malaysia Plan Working Group", mimeographed (Economic Planning Unit, February 1980). For a general discussion on investment criteria, pricing, and performance evaluation, see R. Thillainathan "Public Enterprise Policy on Investment, Prices, and Rates of Return in Malaysia" (APDAC Paper, 1978); and M.C. Puthucheary, "Investment Guidelines, Pricing Policies and Performance Evaluation of Public Enterprises in Malaysia" (APDAC Paper, 1980).

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Politics at the Periphery: A Study of the 1981 and 1982 Election Campaigns in Sabah

BRUCE GALE

This paper examines the interplay between local and national political forces as they developed during two recent election campaigns in Sabah. It argues that, despite the continuing turnover of both state and national leaders, political patterns have remained virtually unchanged since independence. Local politics is still largely a matter of distributing patronage rather than establishing programme-based ideological movements. Questions of race, religion and class, relevant to the study of West Malaysian politics, are less important in Sabah than the existence of strong clientage networks.

Sabah has operated according to its own set of political rules since the formation of Malaysia in 1963. Election campaigns seem generally more vindictive than those on the peninsula and family feuds are often a key element in inter-party and intra-party competition. However, ethnic relations are generally better, with almost all the dominant political parties allowing (at least in theory) members of any ethnic group to join. A combination of geographic isolation, historically separate administrative institutions, and a distinctive ethnic configuration (in which Malays form a minority) has also encouraged Sabahans to oppose vehemently any attempt to bring the state into line with federally designed and administered development programmes. Tun Mustapha, and to some extent Datuk Harris Salleh, have sought to establish powerful state governments, maintain links with the heads of foreign nations and conduct foreign policies more in the manner of independent sultans than elective state leaders.

Frequent contact with federal leaders in the National Front coalition is limited by distance, while restrictions on the movement of West Malaysians to the state in an effort to reserve jobs for Sabahans has further insulated the area from national social and cultural trends. The Federal Constitution, drawn up in 1963, recognized the special position of the East Malaysian states (Sabah and Sarawak) by giving them special powers in the fields of health, language, immigration, and taxation.[1]

Provincial newspapers flourish in a situation where logistical problems make it difficult for national dailies, such as the *New Straits Times* and the *Star*, to cultivate a local readership. Almost unavoidably, Sabah newspapers are a prime target for chief ministers who can see the importance of a sympathetic press in maintaining themselves in office.

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Control of timber licences is another key factor influencing the course of Sabah politics. It is common knowledge in the state that a timber licence is a means of making large profits. These licences are shared out among officials and supporters of the governing party so that the stakes in an election contest are naturally much higher than in other parts of the country.

History has also played its part. Most of the peninsular states have a long history of Malay court politics upon which their modern political systems are built. Indigenous leaders in Sabah lack a similar historical experience or cultural framework. The state has a small, first generation political élite. Institutionalized structures regulating political activity are, therefore, weak, and political office is often seen as the personal possession of the incumbent in a manner similar to Weber's characterization of the patrimonial state.

The existence of an external threat from Indonesia and the Philippines has not encouraged Sabahans to look to Kuala Lumpur for leadership. Unlike Sarawak, Sabah suffered little during the Indonesian confrontation in the early 1960s and has therefore had little experience in dealing with military problems. Perhaps it has been a lack of appreciation of the dangers involved which has led state leaders to prefer to use their own resources. The Philippine claim to Sabah actually encourages Sabah's chief ministers to take a particular interest in foreign affairs by cultivating good relations with Indonesia, Brunei and other friendly powers. Naturally, these moves are not appreciated by the federal leaders.

The Search for Political Integration

The defeat and subsequent dissolution of the Kadazan-based United Pasok-momogun Kadazan Organization (UPKO) and the rise to power of Tun Mustapha as Chief Minister as a result of the 1967 state elections seemed to mark a new phase in federal-state relations. Tun Mustapha's party, the United Sabah National Organization (USNO), was closely identified with federal policies, and his early activities seemed to confirm this association. He encouraged the use of Bahasa Malaysia and promoted large-scale conversions to Islam.[2] Political opponents, however, accused him of corruption, nepotism and economic mismanagement through grandiose development schemes.

By 1974, the Chief Minister was beginning to display serious signs of independence. Sabah began its own air charter service (Sabah Air) in defiance of federal wishes, Tun Mustapha avoided functions marking an official visit of Malaysia's King to Sabah and even took it upon himself to contact Indonesian and Philippine politicians directly without first consulting the leaders in Kuala Lumpur. There were also rumours that he was complicating Malaysia's relations with its ASEAN neighbours by giving assistance to Muslim rebels in the southern Philippines.[3]

These activities, however, almost paled into insignificance with the

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apparently well-founded allegation by a newly-formed opposition party (Berjaya) that Tun Mustapha had raised the possibility of secession at an USNO meeting in April 1975.[4] Earlier, in a typically Malaysian attempt at compromise, federal leaders had offered him the portfolio of the Defence Ministry after the national elections of 1974, but this had been refused. Renewed federal attempts to unseat the Chief Minister involved the Federal Government using its constitutional powers to ensure that Berjaya, which largely consisted of ex-USNO members, would be able to compete effectively with USNO in the 1976 state elections. It is beyond the scope of this paper to give an account of the election campaign which followed. Suffice it to say that, for the Federal Government, the resulting Berjaya victory established a co-operative state government once more in Sabah.[5]

After the elections, the National Front in Kuala Lumpur hoped that Berjaya and USNO could be encouraged to settle their differences, establish a coalition government and, thus, save the federal leaders the embarrassment of having two of their component parties being political opponents at the state level. By 1981, however, this goal had yet to be achieved — partly because of unending personal feuds which were constantly fuelled by accusations and counter accusations.

During the 1981 election campaign, the Secretary-General of Berjaya, Datuk Mohammed Noor, repeated the party's stand that Berjaya and USNO could never co-operate while certain personalities such as Syed Kechik remained in USNO.[6] However, it should be pointed out that personal animosities did not necessarily influence the actions of all the senior party leaders. Tan Sri Said Keruak, who became USNO President after Tun Mustapha's resignation in April 1978,[7] and Datuk Harris Salleh, the Berjaya President, were business partners in a timber concession dating back to the time when they served under Tun Mustapha.

With the leaders of the two parties on such good terms, it seems reasonable to look for other possible causes for the failure of the two organizations to unite. One explanation is that the success of Berjaya in 1976 had re-established a natural two-party system based upon the major ethnic divisions of the state. In other words, a basically non-Muslim Kadazan political party had been created which was opposed to an organization which attempted to represent the interests of the Malays and other Muslim indigenous groups. The Chinese, having the option to align themselves with either group, held the balance of power.

Such an analysis, however, can be misleading. It is true that Berjaya had mostly Kadazan and Chinese support, but it must also be recognized that many of the party's prominent leaders, such as Datuk Harris Salleh, Salleh Sulong, and Mohammed Noor, were not Kadazans or Chinese. Moreover, they were well known as Muslims in a party which was largely supported by non-Muslims.

It is not easy to make simple generalizations about political cleavages in Sabah. Race and religion are clearly important issues. However, the evidence suggests that other considerations, such as a desire to gain the support of sections of the other communities in order to win, the existence of clientage networks and

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the need to present a united multiracial image to the Federal Government, also play an important role.

The 1981 State Elections

When the State Assembly was dissolved on 21 February 1981 for the elections in March, there were an estimated 315,073 voters on the rolls out of a population of around one million. Of these, about 109,524 were non-Muslim *bumiputras* (mostly Kadazans), 118,613 were Muslim *bumiputras* (Malays, Bajaus and others) while a further 86,936 were Chinese. The Muslim *bumiputra* groups, consisting mainly of padi farmers and fishermen, predominated in the coastal areas. Non-Muslim *bumiputras* worked on the land in the interior. The Chinese worked in the urban areas as labourers, businessmen, and professionals.

There had been a number of changes since 1976. In the elections of that year Berjaya had been successful in 28 constituencies, while the remaining 20 had been retained by USNO. However, nine USNO assemblymen subsequently joined Berjaya, increasing the number of seats held by the new state government to 37.

With obvious federal support, Berjaya was soon able to consolidate its position in the state. However, the party received a severe blow in June 1976. Tun Mohammed Faud Stephens, who had resigned as Yang di-Pertua Negeri (state governor) in July 1975 in order to become President of Berjaya, was killed in a plane crash. The tragedy also claimed the lives of other key Berjaya figures, including the charismatic leader, Peter Mojuntin, and the intellectual Salleh Sulong. Datuk Harris Salleh, Vice-President of USNO until his resignation in July 1975 to form Berjaya, became the new party President and Chief Minister. After Tun Mohammed Faud Stephens' death, however, it was not at all certain that the Kadazans would continue to unite behind the party. Datuk Harris Salleh had the support of Berjaya's Chinese leaders but many Kadazan politicians were known to have preferred James Ongkili as party President.[8]

USNO's election calculations were apparently based on two major considerations. One was the belief that the defection of assembly members did not necessarily mean that the loyalty of the voters to the party had changed. This assumption seemed reasonable enough at the time, particularly since the defectors represented areas with Muslim *bumiputra* majorities which were traditionally sympathetic to USNO. The party was therefore confident of regaining all the twenty constituencies it had won in the 1976 elections.

Realizing it could not possibly win the elections by appealing to the Malay and Bajau votes alone, USNO made an electoral pact with two new parties. They were the United Pasok Nunukragang National Organization (Pasok) and the Sabah Chinese Consolidated Party (SCCP). The strategy was to take advantage of the apparent ethnic cleavages within Berjaya by offering disaffected government supporters a means of registering their discontent.

Pasok, which took its name from the ancestral village of all the Sabah native

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tribes (Nunukragam), near Keningau in the interior, was apparently Berjaya's main worry. The new party intended to appeal to Kadazans, Muruts and Rungus, many of whom were among the poorest in the state. Pasok's obvious line of attack was to take advantage of the historic divisions within the non-Muslim indigenous community. Originally, the term "Kadazan" had been used to describe the indigenous people of the Penampang district near Kota Kinabalu. These Kadazans were educated in Catholic mission schools and obtained employment in the colonial civil service. They were in a better position than the other indigenous peoples to influence government policies. In the 1950s, however, Donald Stephens, later known as Tun Mohammed Faud Stephens, successfully advocated that the term "Kadazan" be applied to all non-Muslim indigenous people in the state.

Since then, many indigenous peoples in the interior have been officially considered Kadazans although they have continued to prefer the older name "Dusun" — a term Donald Stephens thought demeaning. These groups resented the early domination of indigenous politics by the Penampang Kadazans. The Muruts, concentrated in the southern highlands of the interior, also rejected the Kadazan label as did the Rungus people in the Northwest. Since the 1960s, Kadazans, Dusuns, Muruts and Rungus have become more united because of their common opposition to the Malayo-Muslim peoples of the coastal areas rather than through any feeling of a common identity. To them the Malays, Bajaus, and Illanums are "usurpers" of the land they feel to be historically their own.

In 1981, Pasok had few resources with which to challenge Berjaya. Moreover, there was no obvious domination of Berjaya by the Penampang Kadazans. Many of the interior peoples, however, still harboured the resentments of a bygone era, Pasok soon developed strong branches among the Dusuns in the Langkon constituency and among the Rungus in Matunggong, although Pasok leader Ignatius Stephen Malanjum was reluctant to take advantage of the issue.

SCCP, on the other hand, was set up to challenge Berjaya in the urban areas. The party was meant to replace the Sabah Chinese Association (SCA), a former USNO ally, which had become defunct soon after losing all eight of its seats in the 1976 elections.

Barisan Sabah, the name given to the tripartite alliance, planned to split votes that would otherwise have gone to Berjaya in no less than 19 constituencies. This was to be done by fielding both USNO and Pasok candidates in electorates where the number of Malay/Bajau and Kadazan voters were nearly equal in an attempt to siphon off Kadazan votes from other non-Muslim indigenous votes and thus ensure victories for USNO.[9]

There were signs, however, that all was not well with the opposition pact. The level of trust between the Barisan Sabah's component parties was perhaps best illustrated by USNO's insistence that it contest a sufficient number of constituencies to enable the party to govern in its own right should the alliance fail to work.[10] Pasok and the SCCP, on the other hand, objected to several USNO leaders becom-

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ing candidates. Thus, Tun Mustapha and USNO Vice-President Datuk Haji Dzulkifli Hamid were omitted from the list of USNO candidates in order to facilitate the establishment of the electoral alliance.[11]

The component members of the Barisan Sabah also found it difficult to agree on other matters. According to sources within Pasok, the party wanted to field a candidate in Kudat in order to obtain the support of the Rungus people in the areas. However, they were forced to allow the SCCP to field a candidate instead because of the number of Chinese in the town.

USNO and Pasok also had conflicting views about the groups they expected to support them. USNO wanted to unite all the Muslim indigenous peoples under its banner. Pasok, on the other hand, looked to tribal rather than religious loyalties. Difficulties arose because in some constituencies such as Tandek and Sungut there were Dusuns who were also Muslim. Both parties, therefore, fielded candidates. In such situations, Pasok may have attracted USNO as well as Berjaya voters.

Apart from Berjaya and the Barisan Sabah, the only other credible contender in the elections was the DAP. In the 1978 parliamentary contest, the DAP had managed to break into Sabah politics by winning in the predominantly Chinese electorate of Sandakan. This was a remarkable achievement for a political organization encumbered with the stigma of being a peninsular party. In 1981, the DAP planned to enter candidates in the predominantly Chinese constituencies of Sandakan, Tawau, and Kota Kinabalu.

Untainted by any previous association with Tun Mustapha's government, the party could claim to be a more trustworthy representative of Chinese interests than the SCCP. Berjaya implicitly testified to the party's potential strength by maintaining a ban on the entry into the state of DAP Secretary-General Lim Kit Siang and his deputy, Lee Lam Thye. The ban was first imposed before the 1978 elections.

Fung Ket Wing, the DAP's successful candidate in the 1978 parliamentary elections, had built up a good reputation among voters in his constituency, but the party was subsequently weakened by an internal political crisis on the peninsula. It had also lost a significant number of protest votes to the SCCP. In 1978, USNO had allegedly encouraged Sabah's urban Malay minority to vote for the DAP. In 1981, however, the party urged its supporters to vote for SCCP candidates.

The DAP was also at a disadvantage because of the circumstances in which the election was being fought. In 1981, voters were being asked to select a new state government, not send representatives to a distant national parliament. The DAP was, therefore, an irrelevancy because it was not aligned with either the Barisan Sabah or Berjaya. Whichever party formed the state government, the DAP representatives were likely to sit on the opposition benches. This meant that voters who supported the DAP would simply be giving up their chance to participate in determining the fate of the state's two major rivals.

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The SCCP also faced an uphill battle to convince voters to support its candidates. The SCCP Secretary-General, Joseph Chia, claimed that Berjaya had become a business concern competing with the Chinese. "In fact, it has been given the name of Berjaya Sendirian Berhad by some people", he pointed out.[12] He criticized the Berjaya system of allocating timber land to party supporters and reminded voters in Kota Kinabalu that not a single Chinese school had been built in the area since Berjaya came to power.

The Chinese voters were apparently unimpressed with the SCCP's "propaganda". Many SCCP leaders had formerly been in the SCA and associated with Tun Mustapha's government — an administration not known for its sensitivity towards Chinese culture. Perhaps it was for this reason that Stephen Chan, a popular Sandakan accountant, was chosen to lead the party. He had never been a member of the SCA and was imprisoned during Tun Mustapha's rule. In 1976 he joined Berjaya but failed to win a seat in the elections of that year. In Sabah, this defeat was generally explained by the fact that the party did not allow him to stand in Bandar Tawau where most of his Chinese supporters were concentrated. In 1981, Stephen Chan was still a popular figure, but whether this popularity would be sufficient to encourage Chinese voters to overlook the SCCP's close association with USNO was another matter.

Berjaya was in a stronger position in Kota Kinabalu. Lim Guan Sing, the State Minister for Communications and Works, was an acknowledged leader among the Chinese. He was said to have the support of several organizations in the state capital, including the Sabah United Chinese Chamber of Commerce.

Berjaya also claimed to be the only truly multiracial party in Sabah. Its leaders represented all three major communities and, although there were a few isolated expressions of discontent, internal arrangements seemed to be working well. According to one Berjaya official:

> We are not banking on either the Malay votes, the Kadazan votes or the Chinese votes. What we are looking for is the people's vote. We don't segregate people by races because our record shows we have been fair to all.[13]

As if to prove its point, Berjaya fielded non-Kadazan candidates in no less than 10 out of the 23 Kadazan dominated electorates.[14]

Political manoeuvring for the elections began in January but it was not until early March that the major contenders released their political manifestos. Nominations closed on 7 March and polling was staggered from 23 March to 28 March because of communication difficulties.

Berjaya released an eighty-point manifesto promising continued progress, prosperity and a just, clean government. The party claimed it had kept the promises it made in the 1976 election and at the same time had restored the people's freedom and democratic rights. Future programmes would include modernizing

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the agricultural sector, providing more aid to fishermen and promoting agro-based and resource-based industries. The party also promised to build more low cost houses in urban and rural areas, expand rural electrification schemes and improve the water supply.[15]

The Barisan Sabah promised that if elected it would pay "special attention to people-development through education, socio-economic and welfare programmes, land development schemes and forestry restructuring policies".[16] The coalition also planned to set up a special council to solve Sabah's high inflation rate, accusing Berjaya of having failed "miserably" in this area. Land would be given to every Sabahan and those whose welfare aid had been allegedly discontinued because they had refused to support Berjaya, would be paid arrears.

During the actual campaign, the component parties added various emphases according to the particular group of voters they were trying to attract. USNO accused Berjaya of trying to de-Islamize the Muslims, while the SCCP alleged that government agencies such as Kojasa, which operated retail food outlets, were competing unfairly with Chinese businessmen. Pasok, seeking the Kadazan vote, claimed that the state government had arbitrarily acquired land without regard for proper compensation or the customary rights of the Kadazans.[17]

Sabah politicians interviewed by this writer were remarkably forthright in their open acknowledgement of the vital importance of money in the state's politics. The need to spend money in order to win was particularly acute in the rural areas where there was much competition for the loyalty of the local chiefs and village headman. The local leaders were offered a number of inducements, including zinc roofing and water tanks for distribution among their followers, in return for political support. The areas where money was a particularly vital factor included the parliamentary constituencies of Silam (Lahad Datu, Kunak and Sempora), Marudu (Banggi, Kudat and Bengkoka), and Kota Belud (Uruskan, Tempasuk and Bebayan). In all these three areas the expectations of the people had been raised because of the vast amounts of cash which had been used in previously hard fought political campaigns.

In the urban areas it was different. Here, campaign workers cited the past performance of sitting members, infrastructure development and issues such as Chinese education as important factors influencing the voters. Equally important was the need to gain the support of Chinese guilds and associations. These organizations could not be so easily influenced with offers of money. Voters in the urban areas were generally better educated and therefore made more sophisticated political choices.

The struggle for power in the state cut across family loyalties. In the predominantly Bajau Tempasuk constituency in Kota Belud, Berjaya Secretary-General, Datuk Haji Mohamad Noor Mansor stood against his uncle, Datuk Ashkar Hasbollah, who was also the Secretary-General of USNO. The two men were related by marriage. Adding spice to the battle was the fact that Datuk Ashkar

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Hasbollah was tipped to take over Datuk Haji Mohamad Noor Mansor's portfolio as Finance Minister if USNO won control of the state government.

Another well-known example involved Tun Mustapha and his son, Datu Hamid. Tun Mustapha did not contest the elections, but it was common knowledge that he supported USNO. Datu Hamid, however, stood as the Berjaya candidate in the Kunak constituency in a straight fight with USNO's candidate, Salim Bacho. Tun Mustapha said he would campaign against anyone who stood in USNO's way — including his son.[18]

The Federal Connection

Whatever their differences, both Berjaya and the Barisan Sabah were agreed on the importance of some issues. One of these was the need to remain loyal to the state of Sabah. The Barisan Sabah, for instance, promised to ensure the transfer of management technology in the state's industries to Sabahans, rather than Malaysians in general, and wanted to know why Berjaya used state money to run a cattle farm and grow sugar-cane in Australia when there was suitable land in Sabah.[19] Not to be outdone, Berjaya released a statement to local newspapers in Sabah alleging that USNO had lost its proposed headquarters site in Kota Kinabalu because its President and Secretary-General, after transferring the ownership of the site to their own names, sold it to a group of West Malaysians.[20]

Such accusations, however, could not hide the fact that both major parties were vitally concerned about the attitude of federal leaders. Both sides went to considerable lengths to gain the sympathy of key figures in the national government or, at the very least, ensure their neutrality. Berjaya distributed a poster in the kampungs which featured a photograph of Prime Minister Hussein Onn and Datuk Harris Salleh hugging each other. USNO President Tan Sri Said Keruak published a book at about the same time with a similar photograph of himself and the Prime Minister on the front cover. The Barisan Sabah also promised that the party would not deal directly with foreign businessmen without the prior agreement of the leaders in Kuala Lumpur — something it claimed the Berjaya government had done.[21]

One early controversy which erupted in Sabah over the attitude of the federal leaders suggested that the Federal Government was itself unsure of the position it should take. In mid-January, a front-page report in a local Sabah newspaper quoted Chief Minister Datuk Harris Salleh as saying that the Prime Minister supported Berjaya.[22] Tan Sri Said Keruak reacted to the claim by charging that Datuk Harris Salleh was "putting words into Prime Minister Hussein Onn's mouth".[23] He argued that since another senior federal leader, Datuk Musa Hitam, had already announced in Sabah that the National Front would be neutral in the coming election, Datuk Harris Salleh's announcement was a violation of federal party policy.

So confident was Berjaya of federal support that, according to the USNO

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President, the party had printed thousands of election registration slips in Kuala Lumpur bearing the symbols of the Barisan Nasional and Berjaya. A caption between these symbols read: "Pangkalah Lambang Barisan Nasional Bererti Mengundi Calon Berjaya" (A Cross against the National Front symbol means a vote for Berjaya), and "Undilah Calun Berjaya/Barisan Nasional" (Vote for the Berjaya/National Front Candidate).[24]

The Berjaya Secretary-General, Datuk Haji Muhammad Noor Mansor, retaliated by accusing Tan Sri Said Keruak of having "insulted" the Prime Minister. Datuk Hussein Onn, he said, had "enough experience and nobody can put words into his mouth".[25] He went on to say that Berjaya would defeat the Barisan Sabah as the Prime Minister had requested. Datuk Haji Muhammad Noor Mansor, who was also the Sabah Finance Minister, denied any knowledge of the registration slips and claimed instead that USNO was spreading stories that the Barisan Sabah pact had been blessed by federal leaders.[26]

The Prime Minister remained silent throughout the controversy although he was known to be angry about Datuk Harris Salleh's statement. Datuk Hussein Onn had a serious heart condition and was about to leave for London for a coronary by-pass operation. The Federal Government's attitude towards the Sabah elections may have been discussed at what was described as a "very important" Supreme Council meeting of the United Malays National Organization (UMNO) which he chaired before he left.[27] Issues pertaining to the Prime Minister's one-month absence were certainly on the agenda, but no clear statement on the matter was forthcoming until mid-February when Dr Mahathir, in his capacity as acting Prime Minister, met USNO leaders in Kota Kinabalu. To the relief of USNO, Dr Mahathir announced that UMNO had decided to prohibit its members from campaigning for any party in the coming elections and went on to express the hope that the other component parties in the Barisan Nasional would also observe strict neutrality.[28]

Apart from the embarrassing fact that both Berjaya and USNO were members of the National Front at the federal level, UMNO had a particular reason to take a neutral stand. Past experience had taught UMNO leaders to be cautious of Sabah politics. The history of USNO under Tun Mustapha had shown that parties which had at first appeared to have policies highly attractive to the Federal Government would not necessarily retain them.

Like USNO in 1967, Berjaya's relations with the Federal Government in early 1981 were indeed close. Three Berjaya-party Members of Parliament were serving as Ministers or Deputy Ministers in the Federal Government and Datuk Harris Salleh was careful not to say anything that would conflict with federal policy. Moreover, in February it was disclosed that Berjaya and UMNO had set up a joint holding company with interests, through subsidiaries and associates, in housing development, trading, plantation development, leasing, and general investment. The joint business venture, known as Jaya Usaha Bersatu Sdn Bhd,

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was incorporated in Kuala Lumpur with an authorized capital of M$10 million, and chaired by the Secretary-General of the National Front, Encik Ghafar Baba.[29]

In the 1981 Sabah elections, however, UMNO seemed to have decided to keep its options open in case its good relations with Berjaya changed. This may have been partly due to the fact that open support for Berjaya would have antagonized powerful UMNO leaders who sympathized with USNO's cause. In any case, the spectacle of UMNO leaders openly opposing the Malay- and Muslim-based USNO in favour of the predominantly non-Malay and non-Muslim Berjaya would not have appealed to the UMNO rank and file.

On the other hand, Dr Mahathir seemed prepared to risk being accused of violating federal policy by providing Berjaya with limited assistance. As Deputy Prime Minister, he could fully expect to become the next Prime Minister when the ailing Datuk Hussein Onn retired.[30] Whichever party won the Sabah election (and it was clear from the start that Berjaya had a decided advantage) Dr Mahathir would have to work with them in the government. That he should take the opportunity to cement his close association with key Berjaya figures such as James Ongkili is hardly surprising. Another attractive feature of Berjaya to Dr Mahathir was its pragmatic approach to economic development, a philosophy which was similar in many respects to his own.

Shortly before the election campaign officially began, the Deputy Prime Minister visited Sabah at the invitation of the Sabah government to open Berjaya's new M$38 million headquarters in Kota Kinabalu. In his opening speech, Dr Mahathir repeated the federal policy of neutrality. However, he went on to praise the Berjaya government for bringing economic stability to the state. Sabah's precarious financial position when Berjaya took office in 1976 had been corrected, he said, and the state government had even been able to venture into areas thought impossible a few years before.[31]

The Barisan Sabah also had its sympathizers at the federal level. Unrestricted by party policy or discipline, former Prime Minister Tunku Abdul Rahman clearly wanted USNO to win. Some of his reasons were probably personal. The Tunku was well known for his loyalty to his friends, and his close association with Tun Mustapha went back many years. Although the latter was no longer President of USNO, he was known to be still closely connected to the party. A win for the Barisan Sabah may have seen Tun Mustapha become politically active once more. Personality differences may also have been important. Dr Mahathir and the Tunku were old rivals, the former having committed the almost inexcusable act (in Malaysian politics) of challenging the authority of the latter when he was Prime Minister and UMNO President. Thereafter, both men had frequently been found in opposing camps on a number of public controversies.

Tunku Abdul Rahman's weekly column in the *Star* newspaper was the major means by which USNO was able to make its views known in Kuala Lumpur. As a devout Muslim, the Tunku was concerned about Berjaya's apparent attempts

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to win Catholic support. He accused Berjaya of using the centenary celebrations, marking the commencement of operations of the British North Borneo Company, as a cheap publicity stunt to consolidate its influence among Christians in the state.[32]

The Results

The election results justified Berjaya's confident prediction of an easy victory and surprised many local observers who had expected a much closer contest. Berjaya received 60.2 per cent of the popular vote, compared to 53.6 per cent in 1976, and increased its representation in the State Assembly from 37 to 43 of the 47 contested seats.[33] Despite the rhetoric of Pasok and the SCCP, the majority of Kadazans and Chinese supported Berjaya.

The state government had also made deep inroads into traditionally USNO-held constituencies. In fact, USNO managed to retain only three seats. The party won Banggi, the former stronghold of Tun Mustapha, Semporna, a Bajau-dominated constituency, and Usukan, held by USNO President Tan Sri Said Keruak. Indicative of the extent of the Berjaya victory was the fact that a determined effort to unseat the USNO President, who was also a Bajau chieftain with strong roots in Uruskan, almost worked. Berjaya had campaigned strongly amongst the Illanum, a Bajau subgroup, and counted upon the votes of the Chinese and Dusuns in the constituency to tip the balance.[34] With 6,400 voters casting their ballots in the electorate, Tan Sri Said Keruak managed to defeat his Berjaya opponent by a majority of only 89 votes.[35]

RESULTS OF THE 1981 STATE ELECTIONS

	Seats Contested	*Seats Won*	*Deposits Lost*
Berjaya	48	43	nil
USNO	29	3	1
Pasok	27	nil	13
SCCP	7	1	1

USNO's partners in the Barisan Sabah were in a similar state of disarray. Pasok's inexperienced leadership failed to win the party a single seat. Thirteen of its candidates lost their deposits. In explaining the defeat to this writer, the Pasok leader, Ignatius Stephen Malanjum, pointed out that the party had been formed too late to reach its potential supporters at the local village level. He also agreed that the party had been handicapped rather than helped by its association with USNO in the Barisan Sabah.[36] The SCCP fared little better, although its allegation that Berjaya-sponsored government retail stores were competing unfairly with

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Chinese businesses may have won it some votes. The SCCP President, Stephen Chan, won narrowly in Bandar Tawau (by 77 votes), possibly because of disunity in the local Berjaya branch.[37]

Many reasons may be put forward to explain the Berjaya victory. One of these was the Malaysian election regulations which tended to work in favour of the party in power. Political rallies were banned so that parties were forced to use posters and pamphlets, campaign from house to house and hold closed-door oratory sessions (*ceramahs*). Berjaya, being the government party, had easy access to community-halls whereas the Barisan Sabah candidates had to hold their *ceramahs* in the homes of party supporters.

In such a situation, access to the mass media was vital. In Sabah, television and radio were a Federal Government monopoly and federal leaders were clearly anxious not to become officially involved in the campaign. The Barisan Sabah could, therefore, not expect any help from them.

Local newspapers, on the other hand, were virulently pro-Berjaya. The two newspapers with the largest circulations in the state were the *Daily Express* and the *Sabah Times*, both of which were published in English, Malay, and Kadazan editions. Since 1975, Chinese millionaire Yeh Pao Tzo had used the *Daily Express* to support Berjaya. The *Sabah Times* had been previously owned by Tun Mustapha and run by his son, Datu Hamid. In 1977, however, Datu Hamid was induced to join Berjaya and arrange for the *Sabah Times* to be purchased by the Pemodalan Sabah, a state government controlled company. West Malaysian newspapers took a generally more balanced stand in their reporting but this did not help the Barisan Sabah much because these newspaper reports did not reach the voters concerned.[38]

Another important factor working in Berjaya's favour was the attitude of the Federal Government which, although officially neutral, could not hide the fact that its sympathies were clearly with Berjaya. The visits of President Suharto of Indonesia, Dr Mahathir and other federal leaders, and the conference of Menteris Besar and Chief Ministers, obviously helped to enhance the image of Datuk Harris Salleh. It also implied that development funds for the state under the new *Fourth Malaysia Plan 1981–85* would be readily available should Berjaya win.

Economic issues generally worked in favour of Berjaya despite the efforts of the opposition to blame the state government for Sabah's high inflation rate. Berjaya's emphasis upon infrastructure development during its four and a half years of office, the introduction of old-age pensions, free milk and school uniforms for children, were some of its more obviously popular measures. Berjaya also revived an old USNO tactic of paying out a large dividend from the Sabah Foundation to each voter just before the elections.

The various ethnic groups had their own reasons for supporting Berjaya. Among non-Muslims, religious issues were still important. The predominantly Catholic Kadazan community was encouraged by its religious leaders to continue

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supporting what was, after all, a basically Kadazan political party. Among the Chinese, memories of Tun Mustapha's rule (when the lion dance was banned) were still strong and Catholics had not forgotten the expulsion of their expatriate priests. Both the Chinese and the Kadazans apparently believed that a win for the Barisan Sabah would result in Tun Mustapha returning to politics to become Chief Minister once more.

The fact that large numbers of Malay and Bajau voters also supported Berjaya is more difficult to explain. USNO's heavy emphasis on its Islamic orientation was obviously insufficient to retain the loyalty of the Malays and other Muslim groups. Apart from the general economic development which had taken place during Berjaya's rule, Malay and Bajau voters may have been influenced by the fact that senior Malay leaders in the Federal Government were obviously more closely associated with Berjaya than with USNO. In any case, Berjaya was the party in power and this in itself was strongly persuasive. "You have to live", was the way it was explained in one Bajau kampong in Sandakan — implying that it was easier to support the party in power than to oppose it.[39]

Perhaps USNO's most serious handicap was that it was not united. Strong moves within the party to have Tun Mustapha stand as a candidate were strenuously opposed by Tan Sri Said Keruak, Datuk Haji Dzulkifli Hamid, Datu Ashkar Hasbollah, Puan Amisah Borhan and other influential leaders who resented his earlier domination of the party. Officially, the decision not to name Tun Mustapha as a candidate was based on the fact that USNO's partners, the SCCP and Pasok, would object. However, there were also allegations that many party figures with close connections with the former Chief Minister were being deliberately rejected as candidates in favour of those who supported the "New Order".[40] Tun Mustapha himself also appears to have contributed to the party's problems. In Bengkoka, Tun Mustapha supported an independent candidate against the official USNO nominee. The facilities of the United Sabah Islamic Association (USIA) were also apparently involved.[41]

Moves against Tun Mustapha were apparently supported by the ex-Chief Minister's former strategist, Datuk Syed Kechik. The two men had fallen out in 1976 when Tun Mustapha blamed Datuk Syed Kechik for the USNO defeat that year. The split became permanent soon afterwards when Datuk Syed Kechik assisted in the production of a book (*The Politics of Federalism*) which criticized Tun Mustapha's 1975 suggestion that Sabah consider withdrawing from the Malaysian federation. USNO was, thus, split into two opposing camps just before the election.[42]

Between Elections

Soon after the election results were announced, stunned USNO leaders began to accuse Berjaya of vote rigging. An appeal to the Election Commission, however, did not result in any substantial changes. Before the election campaign began, extra

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police had been flown in from Kuala Lumpur to maintain order. The Federal Government's special representative to observe the elections, Datuk Musa Hitam, pronounced himself satisfied and appealed to Sabahans to uphold the decision of the electorate.[43]

What had yet to be decided was not the impartiality with which the elections had been conducted, but the fate of USNO itself. Some USNO leaders were reportedly planning to hand in their resignations. The Federal Government could have tried to force the issue by expelling USNO from the National Front, but there were no early moves in this direction. Both Berjaya and the federal leadership appeared to have decided to wait for the party to collapse on its own accord.

The fact that USNO continued to remain active can be attributed, at least partly, to the return of Tun Mustapha as President at the party's General Assembly in June. Despite the state election debacle, the controversial former Chief Minister still maintained an enthusiastic following. A wealthy man, he also had the means to finance future election campaigns.

The morale of USNO supporters was lifted by an unexpected turn of events within Berjaya. In September, Datuk Harris Salleh surprised everyone by alleging that four senior Berjaya officials were part of a conspiracy with USNO to overthrow the state government. Datu Abdul Hamid, the state Minister for Culture, Youth and Sports, was sacked together with his political secretary, assemblyman Abbas bin Ali. Puan Norsaudah, the Assistant Minister to the Minister of Community Services, also lost her portfolio.[44]

Puan Norsaudah was allowed to retain her nominated seat after expressing regret about her involvement in the alleged plot. However, both Datu Abdul Hamid and Abbas bin Ali, who had previously signed undated resignation letters, were forced to resign their Kunak and Balung seats respectively.

Datu Abdul Hamid, the son of USNO President Tun Mustapha, denied that he wished to topple the government. He said he was the spokesman for a group of Muslim Berjaya assemblymen who were unhappy with the party's handling of several issues. One of these was the allocation of Cabinet posts.[45] Out of 44 elected Berjaya assemblymen in 1981, 28 were believed to be Muslims. However, in spite of their majority, only three were given ministerial positions while another two had become Assistant Ministers. Within the Cabinet, the corresponding figures for non-Muslims were six and seven. The matter was a serious one for Datuk Harris Salleh as the state assemblymen involved, said to number up to 17, had reportedly sought to raise the issue with the Federal Government in Kuala Lumpur.[46]

In late September, Tun Mustapha announced that the USNO Supreme Council had decided to contest the by-elections as soon as they were held. The decision was somewhat surprising in view of the state's political history, which showed that an opposition party stood no chance against the government in by-elections for state seats. A well-known example was in 1975 when Datuk Harris stood as the Berjaya candidate for the Labuan constituency. He lost to USNO's Mohamed

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Omar Bledram. Recognizing the difficulty, former USNO President, Tan Sri Said Keruak, had announced in 1980 that the party would avoid such contests.

However, events during the latter half of 1981 gave the party renewed confidence. There were to be three by-elections, not two, and USNO strategists believed there would be more in other constituencies held by Muslim Berjaya assemblymen.[47] The party could not have asked for a better testing ground. All three constituencies had large numbers of Muslim voters and in each case Berjaya had won them by only a few hundred votes previously.

Berjaya was successful in the Balung and Lumadan constituencies, but in Kunak USNO was well organized. Salim Bacho won by 500 votes, and USNO officials were elated. The party's Deputy President, Datuk Haji Dzulkifli Hamid, described the victory as the beginning of the downfall of the Berjaya "regime".[48] Some believed Tun Mustapha's influence to be decisive, particularly since Salim Bacho was known as the USNO President's "god-son".

Other factors were probably of equal importance. The retrenchment of more than 1,000 workers from the Sabah Land Development Board and the announcement that the Sabah Padi Board was to be closed down may have helped swell USNO's ranks.[49] In all three constituencies, the voters were mostly fishermen, coconut planters and land settlers. The state government had also been issuing warnings and dismissals to officials in other government departments and statutory authorities. Instead of announcing new development projects, Berjaya had been making threats.

More ominous for Berjaya was the fact that the party's previously cordial relations with the Federal Government were becoming strained. One indication of this was the cancellation of a trip to Sabah planned for the end of October by the Prime Minister. Federal leaders were apparently unwilling to provide Berjaya with the same moral support for the by-elections which had been forthcoming in the state-wide contest earlier in the year.

Several actions by Datuk Harris Salleh had annoyed the Federal Government and invited comparisons with Tun Mustapha's reign. There were rumours, for example, that he had become involved in UMNO's internal affairs by supporting Tengku Razaleigh against Datuk Musa Hitam in the race for the UMNO Deputy Presidency in June.

Moreover, his invitation to the Sultan of Brunei to visit Sabah was seen as a serious breach of protocol in Kuala Lumpur. In the State Assembly in October, he bluntly accused federal ministers of neglecting the state. Later, in early December, Deputy Prime Minister Datuk Musa Hitam arrived in Kota Kinabalu amid widespread speculation that he planned to ask Datuk Harris to resign. Undaunted, the Chief Minister repeated his earlier charge of Federal Government neglect and demanded that Malaysia break off diplomatic relations with the Philippines. He claimed that Manila had been harassing Sabah with unfounded charges that Philippine rebels were being trained in the state.[50]

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Datuk Musa did not ask for the Chief Minister's resignation. However, it was clear that he was unhappy with Datuk Harris Salleh's tendency to run the state on an independent course. At a press conference attended by the Chief Minister, Datuk Musa Hitam told reporters that the Philippine charges would be dealt with through the proper diplomatic channels. The following day, the Deputy Prime Minister went further, saying there was no need for Malaysia to take drastic action. Datuk Musa Hitam also revealed that the federal and state governments had different approaches to economic development. He told guests at a dinner in the luxurious Berjaya headquarters that the state government should change its strategy to prevent income disparities in Sabah from worsening.[51]

The 1982 Parliamentary Elections

As the 1982 general election drew near, the glaring anomaly in Sabah politics, in which the two most bitter rivals in the state were both members of the National Front, had yet to be resolved. In the 1978 parliamentary elections, a direct clash had been avoided when the two parties had been assigned seats based on the outcome of the 1976 state elections. A formula had been adopted whereby the party which controlled two out of three state seats, which formed each of the sixteen parliamentary constituencies in the state, was given the seat.

Berjaya had, therefore, contested in ten constituencies and had won nine, while USNO had won four seats out of the five it contested. The DAP had won in Sandakan, while in Kota Kinabalu USNO had lost to Mark Koding, a Berjaya-backed independent candidate. In Kinabatangan, no agreement could be reached on which party should represent the National Front. With the consent of Datuk Hussein Onn, both parties had then contested here under their own symbols. Berjaya won.

The National Front's problem in 1982 was that, if the 1978 formula was used, USNO would have only one parliamentary seat to contest.[52] Many UMNO leaders were sympathetic to USNO because they considered it to be fighting in the interests of the Muslim *bumiputras*. Moreover, the existence of a strong opposition party in the state would help moderate the excesses of Datuk Harris Salleh. On the other hand, the leaders in Kuala Lumpur had not forgotten the poor management of the state under Tun Mustapha. Berjaya's obvious popularity was another factor which could not be ignored.

Berjaya was in favour of both parties being allowed to contest the elections as rivals under their own party symbols. Datuk Harris suggested that the National Front should choose the winner of the elections to remain in the coalition and drop the loser altogether. From Berjaya's point of view, USNO was not a reliable member of the National Front because it had formed an electoral pact with two non-front parties (Pasok and the SCCP) during the 1981 state elections.

The National Front decided to allow USNO to stand under the *dacing* symbol in five parliamentary constituencies. In this case, the number of seats

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allotted to each party was based on the total number of votes obtained in 1981 rather than on the number of seats won. Berjaya officials were annoyed. The party wanted the chance to wipe out USNO in the elections but this National Front policy prohibited the component parties from fielding candidates against each other. To defy the national leadership in this manner was to risk expulsion from the National Front and the complete withdrawal of federal support. Berjaya reacted by getting five of its members to leave the party and contest the election as independents. The Berjaya leadership then openly campaigned for them.

This strategy was not new. It had been used by other Sabah parties as early as 1962, as well as in several by-elections in the 1970s.

In 1981, however, the Federal Government was clearly unhappy about Berjaya's actions. During a visit to Kota Kinabalu during the election campaign in April, Datuk Musa Hitam called on voters in Sabah to support National Front candidates. The Deputy Prime Minister went on to say that the government in Kuala Lumpur was taking a neutral stand in the contest between USNO and Berjaya. However, he emphasized that "the candidates we support are those who are using the *dacing* symbol. The others are not our candidates."[53] Datuk Musa also issued an apparent rejoinder to Berjaya claims that, in putting up independent candidates against USNO, it was trying to "save" the National Front. He said that no one, except those officially supported by the coalition, had the right to say he was standing on a National Front ticket.

Despite the moral support USNO received from the federal leaders, the party faced an almost impossible task. USNO had limited financial resources and faced a hostile local press. It was also seriously divided. Tan Sri Said Keruak refused to associate himself with the USNO campaign in Kota Belud when Tun Mustapha chose Pandikar Haji Mulia to contest the seat. Tan Sri Said Keruak, the incumbent Member of Parliament, had apparently expected his son, Mohamed Salleh, to be nominated instead.[54] Pandikar Haji Mulia was a lawyer unknown to most voters in the constituency. On the other hand, the Berjaya-backed independent, Haji Yahya Lampong, had come within 89 votes of unseating Tan Sri Said Keruak in the 1982 state elections in Usukan, which was one of the three state seats in the Kota Belud constituency.

Other USNO leaders were also dissatisfied with Tun Mustapha's leadership. Ansari Abdullah, the USNO Youth leader, and Puan Amisah Borhan, leader of the women's section of the party, resigned and joined Berjaya. So did Sabdin Ghani, the party's Chief Information Officer. Many that remained, such as Datuk Haji Dzulkifli Hamid, Gendy Jeffery and Railly Jeffery, were not known for their enthusiastic support for the new President.

In Marudu, the struggle for power was as much an extension of an old family feud as it was a battle between rival parties. The feud was between the families of the late Tun Mohammed Faud Stephens, the founding President of Berjaya, and USNO President Tun Mustapha. The Marudu campaign was fought

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by the sons of both men. Datuk Abdul Hamid had rejoined USNO after his expulsion from Berjaya the previous year. Encik Affendy, the late Tun Mohammed Faud Stephens' son, was the Berjaya-backed independent. During the campaign, he had the active support of Datuk Harris Salleh.

Berjaya faced its greatest challenge in the predominantly Chinese urban areas. Three constituencies in particular were of concern to party strategists. They were Gaya (which included Kota Kinabalu), Sandakan, and Tawau. In these areas, the DAP and the SCCP made an issue out of recent massive increases in rates and licence fees levied by the state government through various local authorities. The government reacted by setting up a panel to review the new rates. At the same time, Datuk Harris toured Tawau and Sandakan, and talked to the local *towkays* (Chinese businessmen).

The election results dealt a crippling blow to USNO. The Berjaya-backed independents won all five seats, leaving USNO with no representation in the national Parliament. The Federal Government was faced with a difficult decision. The Prime Minister had previously said that no-one who resigned from the National Front to fight another Front candidate would be re-admitted. In Peninsular Malaysia, UMNO, MCA and the Gerakan had disciplined members who had contested as independents against official Front candidates. This policy worked well in a situation where such independents were rarely successful. In the case of the Berjaya-backed independents, however, it meant they would have to sit on the opposition bench in Parliament. On the other hand, if the National Front reversed its decision and decided to re-admit them, USNO might take this as a precedent to back independents against Berjaya in the next parliamentary elections.

The National Front's first response was to prevaricate. The coalition's Secretary-General, Encik Ghafar Baba, told an interviewer on Malaysian television that he had still been unable to determine whether it was merely a coincidence that the successful candidates were standing on independent tickets. He confirmed that there was a directive from the National Front to its component parties to expel members who contested against the coalition's candidates. However, he pointed out that the authority to expel such members rested with the parties concerned. The National Front could not intervene in their internal affairs.[55]

Meanwhile, Datuk Harris Salleh repeated his previous statements that Berjaya had sponsored the independents. "The five are Berjaya men", he said bluntly. The party's Deputy President, Datuk James Ongkili, told reporters that by fielding independent candidates against USNO, Berjaya had saved the National Front. He believed that USNO was so unpopular in the state that its candidates would have lost the seats to others irrespective of whether Berjaya had opposed them.[56]

Prime Minister Dr Mahathir was unimpressed. The five independents, he said, would not be allowed to join the government. "As far as we are concerned they are not in the Barisan Nasional. They can rejoin Berjaya but not the Barisan.

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They are opposition MPs''. It was up to the Barisan Supreme Council, he continued, to decide whether Berjaya had shown ''open defiance'' by backing the five independents.[57]

Berjaya's multiracial approach was clearly popular in Sabah, but the party was denied the clean sweep it sought. In Sandakan, the DAP candidate retained his seat in a straight fight with the Berjaya candidate, Ian Chin. Sandakan not only had a greater proportion of Chinese in the town than Kota Kinabalu but the DAP had also won the support of the Chinese Hawker and Taxi Driver Associations. Recent increases in licence fees were another obvious factor contributing to the DAP victory, as was the DAP slogan ''Berjaya for state — DAP for Parliament''. Many Chinese were apparently prepared to support Berjaya in the state elections in opposition to the Muslim-based USNO. In the Federal Parliament, however, they preferred the DAP to protect Chinese interests. Party loyalty was considerably more fluid than on the peninsula.

Related developments suggested that Berjaya was attempting to re-establish its popularity by removing politically embarrassing government officers in the town. The District Officer, Municipal President and another top administrative officer were immediately transferred. When questioned about the transfer, Datuk Harris Salleh claimed it was merely a normal administrative matter. ''They change every three years and the time has come for a change,'' he said. However, it was known that at least one of the officers had been posted to Sandakan only a few months before. Local government officials were known to have antagonized Sandakan hawkers by the strict enforcement of local by-laws.

Conclusion

The history of Berjaya since 1976 suggests several parallels with Tun Mustapha's rule as leader of USNO. Both USNO and Berjaya came to power with the support of federal leaders after previous chief ministers had raised the possibility of secession. As their grip on the state became more secure, both parties then began to display increasing signs of independence from federal controls. Their respective chief ministers cultivated close relations with foreign governments, acquired immense personal wealth and attempted to eliminate all political opposition.

Many observers believe that these developments can be explained by the fact that Datuk Harris Salleh obtained his political education while serving as one of Tun Mustapha's key lieutenants in USNO before 1975. However, the idiosyncracies of particular leaders are not the only factors to consider. The state's geographic isolation and lucrative timber trade are also important. To these must also be added Sabah's unique history and ethnic composition.

Perhaps the most important difference between the government of Tun Mustapha and that of Datuk Harris Salleh is that the latter is the head of a basically non-Malay and non-Muslim party. In the eyes of many, Datuk Harris Salleh is a figure-head rather than a real leader. The true driving force of the party is said

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to lie with Kadazan politicians such as Deputy Chief Minister James Ongkili and his major rival, Pairin Kitingan, who heads the Kadazan Cultural Association. Despite its close relations with federal leaders, such a government may find it difficult to implement enthusiastically aspects of the national culture deemed important by powerful Malay politicians in Kuala Lumpur. If there are to be difficulties between state and federal leaders in the future it will almost certainly involve the issue of ethnicity.

USNO's Islamic orientation is obviously its strongest point in dealing with federal leaders. At one stage, the party apparently believed that its best guarantee of success in Sabah politics would be to join UMNO. Such a move may have benefits for federal and state leaders. The Sabah branch could be assured of federal support while, at the same time, state party officials would be obliged to accept directives from UMNO leaders in Kuala Lumpur.

However, UMNO has shown itself to be less than enthusiastic about such a merger. Tun Mustapha's attempt to remain in power by using this tactic in 1976 was greeted coolly in the federal capital. A similar reception is likely to result from any new moves in this direction. If USNO were to join UMNO it would probably result in a change in the balance of power within the new national party in favour of USNO sympathizers. Dr Mahathir and Datuk Musa Hitam are, therefore, unlikely to agree.

In any case, there are more fundamental differences between the two parties which would probably ensure that political tensions continue to exist even after a merger. A large number of the Muslims in Sabah are not Malays and still take pride in their respective cultural identities. The Malays themselves also tend to have a different outlook to those on the peninsula. Sabah's Malay community has never experienced a traumatic political awakening like the one which accompanied the British Malayan Union proposals in 1946. Nor do the Malays in Sabah regard the Chinese as being quite so threatening in the economic sphere. Moreover, in a period when UMNO has encouraged young well-educated members to take key positions in the party, USNO has been unable to hold the ones it had, much less attract additional talent. In such a situation, party leaders in Kuala Lumpur and Sabah are bound to take divergent stands on a variety of issues.

Any assessment of Berjaya's future must take into account the fact that genuine multiracial parties have not been able to survive long in Malaysian politics. The party's promotion of welfare-state policies, such as old-age pensions, for which all are eligible irrespective of race, may have helped to dilute latent racial tensions. However, federal leaders apparently still prefer to deal with communally based political parties.

The announcement in June 1982 that Datuk Harris Salleh would retire at the end of his term of office suggested that Berjaya was prepared to make some compromises in order to placate federal leaders.[58] In previous months, the Chief Minister had made a number of public statements which could hardly have pleased

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the federal leaders. He had also begun to antagonize sections of Berjaya by pursuing a policy of promoting Muslims and encouraging conversions to Islam.

The future course of events in Sabah remains uncertain. Leadership changes within Berjaya may well produce short-term alterations to the relationship between federal and state governments. An USNO victory in the 1986 state elections (however remote it seems at present) would also result in important political realignments. Whatever happens, fundamental political patterns are likely to remain unchanged for some time.

NOTES AND REFERENCES

1. See Articles 95B, 95C, 95E, 112C, 112D and 161 of the Malaysian Federal Constitution.
2. In 1975, newspaper reports credited him with being responsible for the conversion of 95,000 non-Muslims in the state to Islam. See *Star*, 17 June 1975.
3. A more detailed account of Tun Mustapha's government has been given by Robert O. Tilman. See "Mustapha's Sabah 1968–1975: The Tun Steps Down", *Asian Survey* 16, no. 6 (1976): 495–509.
4. *Far Eastern Economic Review* (*FEER*), 25 July 1975, p. 10. See also *FEER*, 8 August 1975, pp. 11–13.
5. For an attempt to analyse the factors involved in the Berjaya victory, see Harvey Stockwin, "Bulldozing the Tun Mustapha Legend", in *FEER*, 30 April 1976, pp. 8–9.
6. *New Straits Times*, 10 March 1981. Syed Kechik, a multi-millionaire originally from Kuala Lumpur, had formerly been closely associated with Tun Mustapha, having served as chairman of the Sabah Foundation before 1976. Berjaya also objected to USNO's Vice-Presidents, Datuk Haji Dzulkifli Hamid and Encik Karim Ghani. Both did not participate in the 1981 elections. On the role of Syed Kechik during Tun Mustapha's rule, see Bruce Ross-Larson, *The Politics of Federalism: Syed Kechik in East Malaysia* (Singapore: Bruce Ross-Larson, 1976).
7. Tan Sri Said Keruak had also been selected as USNO President earlier when Tun Mustapha resigned briefly as a result of federal pressure in 1976. Tun Mustapha was re-elected USNO President in May 1977.
8. Bruce Ross-Larson, op cit., pg. 204.
9. *New Straits Times*, 8 March 1981.
10. *New Straits Times*, 19 February 1981.
11. *New Straits Times*, 6 March 1981. In an interview with this writer in August 1982, Datuk Haji Dzulkifli Hamid said that an additional reason for the rejection of Tun Mustapha's candidacy by the USNO Supreme Council was opposition from the federal leaders.
12. *Star*, 12 March 1981.
13. *New Straits Times*, 24 March 1981. The assertion that Berjaya made no distinctions between ethnic groups was not entirely true. In Uruskan, Berjaya attempted to split the Bajau vote by appealing to the Illanum subgroup in order to defeat USNO President Tan Sri Said Keruak.
14. Official figures on the racial composition of seats are difficult to obtain and often contradictory. Those given here are based on newspaper reports. The term "Kadazan" is used in its broadest sense.
15. *Star*, 6 March 1981.
16. *New Straits Times*, 11 March 1981.
17. The party also alleged that Berjaya was using the traditional Kadazan harvest festival for political gain by providing the necessary finance. See *New Straits Times*, 11 March 1981.

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18. As things turned out, Tun Mustapha did not come to Sabah. He remained in London throughout the campaign.
19. *New Straits Times*, 11 March 1981.
20. *Sabah Times*, 17 March 1981. Tan Sri Said Keruak later accused two Sabah newspapers (the *Daily Express* and the *Sabah Times*) of defamation. See *Utusan Malaysia*, 27 March 1981.
21. *New Straits Times*, 11 March 1981.
22. *Daily Express*, 17 January 1981.
23. *Star*, 29 January 1981.
24. Ibid. The National Front (Barisan Nasional) should not be confused with the Barisan Sabah. Both Berjaya and USNO were members of the National Front at the federal level.
25. *Star*, 30 January 1981.
26. Ibid.
27. *New Straits Times*, 29 January 1981.
28. *Utusan Malaysia*, 16 February 1981.
29. *Utusan Malaysia*, 17 February 1981.
30. Datuk Hussein Onn announced his retirement in May. See *Star*, 16 May 1981.
31. *Daily Express*, 15 February 1981. These views were echoed by the federal Minister for Finance, Tengku Razaleigh (*Sabah Times*, 21 February 1981).
32. *Star*, 9 March 1981.
33. *New Straits Times*, 30 March 1981. The election in one constituency (Bengkoka) was postponed because of the death of one of the candidates. Voter turn-out was 75.7 per cent compared to 80.7 per cent in 1976.
34. *Business Times*, 19 March 1981. The Illanums are a Bajau subgroup whose dialect and customs are different from the majority of Bajaus.
35. The detailed results for each seat were published in the *New Straits Times* and the *Utusan Malaysia* on 29 March 1981.
36. Interview with Ignatius Malanjum, Kota Kinabalu, August 1982.
37. *New Straits Times*, 30 March 1981.
38. At one stage, Datuk Harris launched a bitter attack on three major West Malaysian newspapers (The *Star*, the *New Straits Times*, and the *Utusan Melayu*) for allegedly "printing rubbish and insulting the intelligence of national leaders and the people", saying he was filing a libel suit against the *Star*. Other Berjaya leaders made no comment and at least one appeared to sympathize with the journalists concerned. See *Star*, 6 March 1981.
39. *New Straits Times*, 9 January 1981.
40. Tun Mustapha's supporters were not completely excluded. USNO candidates who had close ties with Tun Mustapha included Datuk Sakaran, Salim Bacho, and Datu Salam.
41. Interview with Datuk Haji Dzulkifli Hamid, Kota Kinabalu, August 1982.
42. For an account of the election campaign sympathetic to Tun Mustapha, see Shafie Nor, *Politik Usno, Berjaya dulu dan Masakini* (Kuala Lumpur: Shafie Nor, 1981).
43. *New Straits Times*, 30 March 1981.
44. *Sabah Times*, 18 September 1981.
45. *Daily Express*, 19 September 1981.
46. *National Echo*, 2 November 1981.
47. The third by-election was caused by the resignation of a veteran assemblyman representing the Lumadan constituency.
48. *New Straits Times*, 10 November 1981.
49. *Sabah Times*, 15 September 1981.
50. *FEER*, 11 December 1981.
51. Ibid.
52. The parliamentary seat was Silam. In the 1981 elections, USNO won the state electorate of

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Semporna and later won Kunak in a by-election, thus giving it the required two out of three seats in the Silam parliamentary constituency.

53. *New Straits Times*, 19 April 1982.
54. *Star*, 18 April 1982.
55. *Star*, 28 April 1982.
56. *National Echo*, 28 April 1982.
57. *Star*, 30 April 1982.
58. *Star*, 24 June 1982.

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Strengthening the Capacities of Local Government in Indonesia: Issues, Strategies, and Experiences

MICHAEL MORFIT

Introduction

This is a preliminary examination of the problems and potentials involved in efforts to strengthen the capacities of local government in Indonesia.[1] It draws upon a variety of sources and experiences in an attempt to determine the political and social parameters within which any local development project in Indonesia must operate. Determining the parameters, however, is not always a straightforward exercise. Much of what is suggested here is based upon an interpretation of government thinking and policies, as well as those of foreign donor agencies. As there have been few studies of the experiences of projects aimed at strengthening local government, many of the conclusions drawn from past efforts are based on individual experiences, scattered reports, and the best judgments of those most directly concerned, rather than comprehensive and systematic evaluations and surveys.

An underlying assumption of this discussion is that strengthening the capacities of local government institutions is a reasonable objective which is appropriately pursued through various development programmes. The arguments to support this assumption are numerous and have been discussed on many previous occasions. They include the view that lower levels of government are more likely to be sensitive to local conditions and responsive to local needs, and thus more effective. Local control over development projects, moreover, encourages local support for project activities and responsibility for the continued maintenance and use of project resources. That is, the sustainability of project benefits is enhanced if local control over the development process is encouraged. Efficiency is also another reason for devolving responsibilities to lower levels of government because such agencies are more likely to respond quickly and appropriately to the needs of the locality. Finally, strengthened local capacities to plan, implement, and manage development projects are often viewed favourably on ideological grounds. The argument is that it is inherently desirable to increase the participation and effective control by local populations rather than public interventions in their communities.

For the purpose of this discussion, the arguments cited above are taken to be non-problematic. They may, in fact, require considerable examination, and there may be other more cogent arguments which should be noted. However, the focus of this paper is on the problem of strengthening local government capacities

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in Indonesia: firstly, what issues this presents; secondly, what strategies can be suggested; and thirdly, what lessons can be learned from various experiments which have been undertaken thus far.

Issues

This first section examines a variety of issues raised by an examination of decentralization in Indonesia. It begins with a consideration of the need for more careful definition of what is meant by such terms as local government, and what different capacities might be strengthened. Next, it examines different goals which decentralization might be designed to achieve. Finally, the abstract problem of strengthened local government is placed in the Indonesian context, and it is argued that there are important reasons why the government may find it difficult to pursue a broad policy of decentralization.

A. DEFINITIONAL ISSUES: WHAT IS MEANT BY DECENTRALIZATION?

1. Which local government?

Apart from national-level agencies operating from the capital city of Jakarta, Indonesia has a variety of local authorities of the provincial, *kabupaten* (district), *kecamatan* (subdistrict), and *desa* (village) level. Therefore, it is not enough to speak of "strengthening the capacities of local government" without at the same time being clear which level of local government is being discussed. Because of the highly centralized character of the present pattern of governance, the tendency has been to speak of local government as being the provincial government. Decentralization of authority, then, has frequently been taken to mean giving greater scope for the exercise of judgment at the provincial level. However, depending on the issue at hand, it may be more appropriate to examine the capacities of lower level agencies, down to the village level.

In addition, at each level of local government there are a variety of different agencies which might be the focus of institution building efforts. For example, at the provincial level there are the Dinas, or technical sectoral agencies, responsible for the implementation of specific programmes within sectoral boundaries. There are also the provincial planning boards, or Bappeda, which are responsible for co-ordinating and overseeing the planning and implementation of development programmes within a whole province. Finally, there is the provincial assembly, or DPRD (Dewan Perwakilan Rakyat Daerah), which must authorize the expenditure of funds under provincial control. A strategy for increasing the capacities of local government agencies might focus on any of these different institutions, depending on perceptions about their relative importance, potential contributions, and comparative needs.

A similar distinction can be made between agencies at the *kabupaten* level, where there now exist newly established planning boards and district assemblies

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(DPRD Tingkat II). At the village level, there are both field workers from technical agencies and the village assembly or LKMD (Lembaga Keamanan Masyarakat Desa). Here again, different agencies may be the target of institution building efforts, depending upon the assessment of their potential role and needs.

2. Strengthening which capacities?

The institutional development of local government agencies may suggest a variety of different activities depending on different understandings of what it is that is to be strengthened. For example, if the primary concern is the effective and efficient delivery of appropriate goods and services to the village level, then the technical capacity of sectoral agencies might be posited as the target of institution building efforts. On the other hand, it might be argued that the planning process and exercise of effective control over the use of public resources at the local level is what should be strengthened. If this is the case, then local planning agencies, such as the Bappedas, might be the focus of institution building efforts.

In an effort to clarify exactly which capacities are to be strengthened, one might distinguish between the following different functions which local government agencies at various levels might perform. These functions include:

— mobilization of financial resources
— determination of broad policies
— allocation of resources
— planning of specific projects
— implementation of projects
— overseeing/co-ordinating/monitoring implementation of projects.

3. Strengthening government versus strengthening participation

The capacities of local government agencies at various levels could well be increased without establishing a process of popular participation in development activities. The effectiveness and efficiency of these agencies may even be increased to the detriment of popular control over development programmes. Greater training for technical staff, for example, may make them less willing to consider inputs and suggestions from villagers, precisely because training predisposes them to regard development projects as posing technical problems amenable to technical solutions which require properly trained staff. Conversely, popular participation and control over development projects may cause delays or the inefficient allocation of resources, at least in the short and medium term.

4. Deconcentration, decentralization, co-operation and "vrijbestuur".

The Government of Indonesia distinguishes between these terms when it attempts to describe more exactly what kinds of functions are being devolved to lower levels of government. "Deconcentration" is defined as the process whereby local government agencies are given responsibility for implementing projects, and monitoring

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and reporting on their implementation. However, control of broad policies, planning, and (most importantly) funding remains at the central government level.

"Decentralization", in contrast, devolves responsibility for policy determination, planning, funding, implementing and monitoring of projects to local government agencies. The fact that funding is also entirely a local government function in this definition means that it is likely to have only limited applicability for reasons which are discussed below.

"Co-operation" is defined to mean that central government agencies retain responsibility for the broad determination of policy and for funding. All other functions, including planning, implementing and monitoring projects, are devolved to local government agencies. INPRES programmes are a good example of co-operation in that broad policies are determined by central government agencies, and funds are provided from the central government, but the planning and implementation of specific projects are left to provincial, *kabupaten*, or *desa* agencies.

Finally, the concept of "vrijbestuur" refers to those areas where there is no firm determination of which government agency has responsibility, and where local governments are therefore free to intervene as and when they feel it appropriate to do so. It is interesting to note that local government agencies do not appear to have been eager to seize upon this area of ambiguity and turn it to their own advantage. The lack of a substantial resource base is probably an important reason for this.

B. GOAL ISSUES: DECENTRALIZATION FOR WHAT PURPOSE?

1. Whose goals?

With the development of the various INPRES programmes (Instruksi Presiden — programmes established by presidential decisions and administered through the Ministry of Home Affairs), various local government agencies have been given sufficient funds to plan and implement development projects within carefully defined areas. These were started in 1969 and now number eight distinct programmes. However, it is not clear whether there is general unanimity within the government about the extent to which local government should be strengthened or the kind of authority which local agencies should exercise. The Directorate General of Area Development (Bangda), through which INPRES programmes are largely channelled, is not always in agreement with Bappenas, the national planning agency. Furthermore, in the process of implementing various INPRES programmes through sectoral agencies, some have become increasingly centralized and others almost resemble conventional sectoral programmes. Therefore, it is not appropriate to speak of a single coherent articulation of goals of the government in this regard.

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2. What goals?

Different interpretations can be given of the interest which various sections of the government have in devolving greater authority to local government agencies. For example, it can be argued that Bangda necessarily encourages the devolvement of authority because it has no line officials at the provincial or *kabupaten* level through which any centralized policies or programmes could be implemented. In this regard, it stands in contrast to sectoral agencies with their direct channels of command down to the local level. For Bangda, strengthening local government agencies is the only way in which it can exert effective influence over the implementation of development programmes. Strengthening its own position in this way may be a goal in itself for Bangda.

Alternatively, it can be argued that devolvement of a limited degree of authority to local government agencies is a political necessity which emerges out of the diverse character of Indonesia and strong regional cultural identities. In this view, the INPRES programmes represent the minimum concessions which the central government must make if it is to avoid a repetition of separatist movements and regional rebellions which troubled the nation during the 1950s and early 1960s. The fact that the overwhelming proportion of the national budget depends on the natural resources of a few provinces provides a further incentive in certain areas to ensure that local governments feel they have some direct control over the allocation of public resources. The strengthening of local government may thus be a means to the achievement of broader political goals.

3. Possible incompatibility of goals

The process of strengthening the capacities of local government agencies may entail some costs in terms of inefficient allocation of resources, at least in the short and medium term. Therefore, there may be some trade-off between trying to allocate funds efficiently and trying to develop local capacities. There may also be some trade-off between the establishment of a coherent national development plan and the flexibility and discretion given to local agencies to develop plans and projects which are appropriate and acceptable to a given area. Finally, there may be a trade-off between the use of funds provided to the government by foreign donor agencies and the scope given to local agencies to initiate their own projects. It is not clear whether the government or foreign donor agencies have carefully and systematically explored these trade-offs to determine the optimal policy.

C. SOCIAL AND POLITICAL ISSUES

1. The historical context

Since the inception of the New Order government in 1965, the Government of Indonesia has articulated three main goals which have governed the formulation of specific development programmes. These goals are national stability, economic growth, and equity, in that order of priority. These goals are linked to one another

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in that stability is seen as a prerequisite for growth, and in turn growth will enable the government to pursue equity. Equity has only recently been given emphasis in government planning, with stability seen as the overriding objective of the government.

Stability, therefore, has remained a common theme in all government programmes and policies of the past seventeen years. It has meant, first and foremost, political order, and this in turn has been understood to entail the establishment of a strong national government capable of exercising effective authority throughout the entire nation. Through the unifying and stabilizing presence of the armed forces, the government has been able to overcome threats of regional separatism and extreme political movements from either the left (the Partai Komunis Indonesia or PKI) or the religious right seeking the establishment of an Islamic state. It is an indication of the achievement of the New Order government that regional rebellions and separatist movements no longer threaten the political stability of the nation. The territorial integrity of the Indonesian state, a nationalist ideal which was frequently challenged during the 1950s and early 1960s, is no longer in question.

The overwhelming emphasis on centralized control and the initiation of development programmes from the national level of the government bureaucracy has yielded impressive achievements both economically and politically. For example, national programmes emphasizing increased rice production have resulted in significant gains in the agricultural sector. Indonesia now enjoys the highest level of rice productivity of any nation in Southeast Asia. At the same time, however, it is admitted that these same programmes have been less successful than they might have been because of the insistence, for example, upon a single national package of inputs and credit facilities, which have not always been appropriate to local conditions. As long established and fertile rice growing areas are brought under modern cultivation, such programmes must necessarily turn to more marginal areas where local conditions will vary and flexibility is required in order to achieve production targets. One institutional challenge, therefore, is determining how these demands for greater flexibility can be integrated into the national framework.

2. Cultural inheritance

Although there are approximately 300 distinct ethnic groups in Indonesia, the Javanese constitute 60 per cent of the total population, and occupy the predominant positions within the government. Javanese cultural norms are the generally accepted standards of behaviour, and permeate the mainstreams of thought and discussion on public issues. One aspect of the Javanese cultural tradition is the emphasis on the unified character of power and authority. This is a concept which makes notions such as a separation of powers or federalism difficult to understand and accept.[2] Much has been written about the manner in which Javanese mysticism

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and syncretic beliefs and symbols affect government thinking and policies.[3] In this context, the idea of decentralization and the strengthening of local government capacities runs counter to a strong and still vital cultural tradition.

3. Financial resources

In addition to the historical conditions which have encouraged the establishment of a strongly centralized government, the realities of financial resource mobilization and management reinforce the tendency to maintain a high degree of centralized control over the development process. There is a significant imbalance between those provinces which yield the largest share of the government's revenues from the exploitation of natural resources (oil, gas, and timber) and those provinces which consume the greatest share of public resources. Because of this, the government necessarily continues to place heavy emphasis on central control over the exploitation of national resources and planning the allocation of the resulting funds.

At present, nearly 80 per cent of total public expenditures are planned and disbursed through the national budget (APBN), with only approximately 20 per cent controlled by provincial or lower level agencies. As Table 1 indicates, of that 20 per cent, a substantial amount is the result of central government grants and subsidies in one form or another. Therefore, provincial agencies are dependent upon continued support from the national level.

TABLE 1
ESTIMATED PERCENTAGE BREAKDOWN OF PROVINCE, KABUPATEN AND KOTAMADYA REVENUES, 1978/79

Source	*%*
Surplus balance brought forward	1.4
Grants:	
Subsidi Daerah Otonom	46.0
INPRES Programmes	24.7
Direct Revenues:	
Routine Budgets	15.7
Development Budget	1.1
Assigned Revenues	
IPEDA (land tax)	5.4
Royalties and cesses	2.6
Loans	3.1
Total	100.0

SOURCE: Kenneth Davey, "Central-Local Financial Relations: A Report to the Government of Indonesia" (Development Administration Group, Institute of Local Government Studies, University of Birmingham, May 1979), p. 78.

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In connection with the INPRES programmes (discussed below), many of the grants and subsidies from the central government leave little scope for local initiative or judgment. The Subsidi Daerah Otonom, for example, is intended to support the payment of salaries of local government officials. These are determined in accordance with standards and formulae determined in Jakarta, and local government agencies act as conduits for these funds, not as planners for their use.

In addition, during the past several years there has been little or no fundamental change in the balance of allocations between national agencies and provincial or subprovincial agencies. A review of the past seven years of the Development Budget (Table 2) shows that there has been a fairly constant allocation of about 23 per cent of development budget funds to lower level agencies. Although the Development Budget has grown considerably in absolute terms, this does not appear to have given provincial and subprovincial agencies better access to national public resources. Increasing budget restrictions, starting from 1983/84, may indeed encourage tighter control of financial planning by central agencies in Jakarta.

4. Sectoral Differences

Apart from the realities of financial resource mobilization and control, there are likely to be significant differences among various sectors in the extent to which decentralization and the development of local capacities and control are acceptable to the government. For example, the establishment of a unified national educational system, using the national language and a nationally determined curriculum, is a major achievement of the post-independence governments of Indonesia. This system, seen as an important instrument in nation-building and the establishment of a national identity, has received increasingly large budgetary support in recent years. Central control over the allocation and use of public resources for this sector is likely to remain in the years ahead. Similarly, transmigration programmes which are intended both to relieve population pressures on the inner islands and to spur development in the outer islands, transcend provincial boundaries and will remain an area where central planning and control are paramount. Large-scale public infrastructure programmes, particularly those which involve a large component of foreign assistance, will continue to be an area where planning and supervision by national agencies dominate.

5. Manpower Constraints

Despite the large and increasing numbers of civil servants, skilled manpower remains scarce in Indonesia. Fewer than 5 per cent of all civil servants have completed a four-year university education. The capacity to undertake planning, implementation, monitoring, and supervision of even relatively unsophisticated and uncomplicated projects remains problematic at all levels of government. The development of quality planning and effective supervision of implementation,

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TABLE 2
APBN DEVELOPMENT BUDGET (1977/78–1983/84)
(INCLUDING DEVELOPMENT ASSISTANCE), ACCORDING TO SECTORAL, REGIONAL AND OTHER ALLOCATIONS
(in billion rupiahs)

Year	*1977/78*	*1978/79*	*1979/80*	*1980/81*	*1981/82*	*1982/83*	*1983/84*	*Total*
Sectoral	800.2 (55.6%)	851.0 (54.3%)	1,359.2 (66.0%)	2,133.5 (59.4%)	2,799.8 (57.9%)	3,694.8 (54.5%)	3,694.8 (56.4%)	15,333.3 (57.1%)
Regional	359.8 (25.0%)	431.1 (27.5%)	508.6 (24.7%)	802.3 (22.3%)	1,127.1 (23.3%)	1,518.3 (22.4%)	1,546.2 (23.6%)	6,293.4 (23.5%)
Other*	280.4 (19.5%)	286.3 (18.3%)	191.5 (9.3%)	655.5 (18.3%)	911.2 (18.8%)	1,566.9 (23.1%)	1,312.5 (20.0%)	5,204.3 (19.4%)
Total	1,440.4 (100.1%)	1,568.4 (100.1%)	2,059.3 (100.0%)	3,591.3 (100.0%)	4,838.1 (100.0%)	6,780.0 (100.0%)	6,553.5 (100.0%)	26,831.0 (100.0%)

* "Other" primarily refers to subsidies for oil products, such as gasoline, kerosene, and diesel fuels.

SOURCE: *Nota Keuangan Pemerintah Indonesia*, Departemen Keuangan.

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therefore, will almost certainly continue to require a major role for agencies at the central level, if only because these agencies have greater experience.

For these reasons, efforts to decentralize planning and control of development programmes, and to strengthen the capacities of local government agencies, face considerable impediments. There are significant forces which encourage the continuation of a highly centralized pattern of governance. Where decentralization has taken place, it has been limited and experimental. Although some sections of the government appear to be committed to the idea of devolving control to lower levels of authority, it is difficult to see how the government could embark upon a broad programme of decentralization. Instead, it seems likely that some piecemeal attempts may be undertaken as the government's policy in this regard gradually evolves.

Strategies and Experiences

This section reviews the specific programmes which have been devised to strengthen the capacities of local government agencies in Indonesia. The assumptions and strategies of these programmes are explored with a view to distinguishing their diverse approaches, and illuminating the lessons which can be learned from them. Some strategies which are clearly not favoured by the government have also been examined briefly, again in an effort to clarify the distinctive character of different approaches. While some evaluations of the socio-economic impact of some of these programmes have been attempted, they are of an uneven quality and do not attempt to take strengthened local government as their focal point. Therefore, a comparative study of the efficacy of the distinct approaches can only indicate characteristic features without demonstrating clear-cut impact or benefits of one approach compared to another.

1. IMPRES Programmes

These programmes represent the major commitment of government funds from the central level to the agencies in the province, *kabupaten* and *desa*. The INPRES Kabupaten programme, started in 1969, established the general administrative and management procedures adhered to by later programmes, and therefore deserves close examination. This programme was not designed specifically as an effort to strengthen local government capacities, but had two purposes. Firstly, it was intended to provide employment opportunities in the rural areas, and as such was closely related to the rural works programme implemented through the Department of Manpower. However, for reasons described below, the decision was made to implement this through Bangda and the *bupati* (district head) in each locality. Secondly, it was intended to provide badly needed basic infrastructure facilities, primarily roads and irrigation systems. These had been neglected in the post-independence period and their rehabilitation was seen as a necessary prerequisite for economic development.

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To fulfil these two functions, small-scale projects were felt to be appropriate because these would not require labourers to travel great distances. The selection of the locations for the projects were felt to be best determined by the *bupatis* who have overall responsibility for local government activities within a given *kabupaten*. The fact that the projects were small-scale meant that they were likely to be within the design and management capacities of *kabupaten* technical offices. Thus, devolution of authority was an instrument for the achievement of other programme objectives and not a goal in and of itself.

No specific programmes for strengthening the technical capacities of the *kabupaten* agencies were instituted. However, like almost all subsequent INPRES programmes, INPRES Kabupaten was concerned with physical infrastructure development. Therefore, fairly detailed specification of technical requirements could be developed at the central level to guide *kabupaten* agencies in the planning and implementation of the individual projects.

Efforts were made to ensure that central level agencies did not gradually assume dominant control over the programme. This was done through the careful definition of the function of higher level agencies in the implementation. In general, provincial and central level agencies are not allowed to initiate projects, but only to review plans which have been developed at the *kabupaten*. In addition, the review function of these higher agencies is restricted to ensuring that the *kabupaten* has fulfilled the requirements previously laid down. Thus, although the *kabupaten* has to use INPRES funds within carefully defined spheres and is required to meet centrally determined standards in drawing up project plans, central and provincial agencies are also restricted in their capacity to interfere in the exercise of authority at the *kabupaten* level.

While this differentiation of the tasks of various levels of government has protected provincial, *kabupaten* and village agencies against undue instructions from agencies at the national level, it has also circumscribed the limits within which they may exercise their judgment. Of the eight INPRES programmes, all except three are designed to channel funds for specific purposes according to guidelines determined in Jakarta. For example, with INPRES Sekolah Dasar (for the construction of primary schools), local authorities are told how many schools they may build during a given financial year. Their scope for exercising judgment is restricted to selecting the sites for new schools. The level of funding, material and design specifications, and implementation procedures have all been determined beforehand.

Only with INPRES Desa (for village improvements), INPRES Kabupaten (for subdistrict projects) and INPRES Propinsi (for provincial projects) are there block grants made available to the local authorities which allow them to exercise some judgment about the kind of projects that are appropriate to their locality. Even with these projects, however, there are some restrictions. In recent years, central-level agencies have determined that approximately 50 per cent of INPRES

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Propinsi funds must be used for the repair and maintenance of roads and irrigation systems. The province is not even free to determine where those funds will be expended, since central government agencies often determine specific projects on sites which require INPRES funding.

Kabupaten agencies have been given preference over village-level agencies and have received more than two and a half times as much funding during the life of the INPRES programmes (Rp1,722 billion as opposed to Rp452 billion). Nevertheless, these two programmes together account for only about 25 per cent of the total INPRES funds expended since the beginning of the programme in 1969/70 until 1983/84. If all INPRES Propinsi funds are added, block grants constitute nearly 45 per cent of total INPRES funding over the period. As Table 3 indicates, however, the largest INPRES programme by far is INPRES Sekolah Dasar, where the scope for local judgment and initiative is very limited. Therefore, INPRES programmes in general represent a limited effort to decentralize some functions (mostly the implementation of infrastructure development) to lower levels of government within carefully determined limits. The mobilization of resources, the determination of broad policies, and the allocation of funds are commonly the prerogatives of central government agencies.

TABLE 3
ALLOCATIONS OF INPRES FUNDING AMONG DIFFERENT INPRES PROGRAMMES, 1969/70 — 1983/84

Programme	*Rp.*	*% of total INPRES funding*
INPRES Desa	452,736,000	7.0
INPRES Kabupaten	1,117,222,202	17.3
INPRES Sekolah Dasar	2,251,799,584	34.8
INPRES Kesehatan	421,055,802	6.5
INPRES Propinsi	1,307,173,450	20.2
INPRES Pasar	255,000,000	3.9
INPRES Penghijauan	410,028,958	6.3
INPRES Jalan	256,082,200	4.0
Total	6,471,098,198	100.0

SOURCE: "INPRES: A Case Study of Financing Local Development" (Paper prepared by the Department of Home Affairs, Government of Indonesia for UNCRD, September 1982); figures for 1983/84 from *Kompas*, 7 January 1983.

One aspect of the INPRES Kabupaten programmes deserves special attention. This pertains to the incentives which have been built into the programmes to increase local revenue generation. The primary source of local revenue is the land tax or IPEDA. (Strictly speaking, the IPEDA is a central government tax which is collected locally, but because these revenues are granted to local governments for

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practical purposes it is considered a local revenue source.) While most of the INPRES funds are allocated on a per capita basis, additional funds are made available to those *kabupaten* which are able to increase their collection of the IPEDA tax. At the time this was instituted, it was calculated that revenue collection could be increased between five and ten times before it approached the formally established rate. After this incentive was created, *kabupaten* officials responded rapidly and IPEDA tax collection increased markedly in succeeding years.

Little is known about the process by which project sites are determined within each *kabupaten*. At the time INPRES Kabupaten was established there were no *kabupaten* Bappedas, and it is not clear whether they presently exert any influence over the planning of INPRES projects. Also, the role of the local assembly (DPRD Tingkat II) is not clear in this regard. As INPRES funds do not formally constitute part of the *kabupaten* budget (APBD II), the local assembly has no official mandate over their use. However, selected studies of INPRES programmes in some areas of the country suggest that on the whole the decisions on the location of INPRES projects are sensible, taking into account technical, social, and political concerns.

As a percentage of the national development budget, INPRES funds increased rapidly from 1969/70 to 1975/76. In subsequent years, allocations to INPRES continued to increase in absolute terms, but levelled off as a percentage of the development budget. From a high of 24.5 per cent in 1978/79, INPRES funds have declined slightly to 21.6 per cent of the development budget in 1983/84. As noted previously, there appears to be no significant change in government policies with regard to the allocation of public resources between central and provincial (and lower) level agencies, and the history of the INPRES programmes seems to support this view.

2. The Provincial Development Programmes (PDP)

This programme, which is assisted with funds from USAID (United States Agency for International Aid) in eight provinces and from the West German Government and the IBRD (International Bank for Reconstruction and Development) in two additional provinces, closely resembles the INPRES programmes. A fundamental difference is that the PDP primarily supports non-infrastructural programmes. It also places primary authority for planning projects in the hands of the provincial Bappeda. In some provinces, there has been a conscious effort to gradually increase the authority and responsibility of the *kabupaten* Bappeda and even to develop the capacities of the LKMD at the village level to initiate projects. The point is, however, that while the PDP remains dependent on central agencies for funding, considerable latitude is provided for the exercise of judgment at the local level.

Because the PDP projects are non-infrastructural and because of the flexibility of the programme, they vary considerably. Some provide training for tech-

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nical staff of various Dinas offices. Others are concerned with sectoral projects such as fisheries development or small-scale industry development. This has meant that there have been no centrally determined guidelines specifying technical requirements which must be met in project planning. Similarly, it has meant that there has been no clear definition of the function of the various levels of government for project planning, implementation, and monitoring. For the USAID assisted provinces, the reimbursement system, oriented to the completion of individual sub-projects, has also added another dimension not present in INPRES programmes. The result is that central agencies, primarily Bangda in conjunction with USAID, have been much more intimately involved in individual project planning and monitoring, and they have not been restricted to specific tasks as with the INPRES programmes. At the same time, these agencies have so far not established national specifications or detailed policies within which the local agencies must work. In this sense, the PDP offers a mirror image of INPRES programmes, with more involvement of central-level agencies in individual project implementation and less with the determination of broad policies or the allocation of resources among sectors. Like INPRES programmes, however, the PDP retains overall funding control at the central level.

The PDP's primary point of entry into local government is the provincial Bappeda. Funds from the PDP, although relatively small compared to the total expenditures in the eight provinces, are unambiguously in the control of these bodies. This gives them some leverage *vis-à-vis* technical agencies which would otherwise be more responsive to their central-level headquarters. For this reason, the PDP proposes that, for the next stage, primary attention be given to strengthening the planning capacities of these agencies. The activities funded under USAID's Local Government Training II Project will complement and support this focus. This strategy concentrates on the co-ordination function of the Bappeda in an effort to develop coherent and thoughtful plans for provincial development.

Another aspect of the PDP is its concern with "bottom up planning". To the extent that provincial Bappedas are strengthened *vis-à-vis* technical agencies, and their capacities to co-ordinate effectively the work of those agencies is enhanced, this constitutes an important step in the devolution of authority to lower levels of government. But the PDP also tries to move below the provincial level to the *kabupaten* Bappeda and the LKMD. Some provinces, such as Central Java, have made more progress in this regard than others, although it is not yet clear to what extent a foreign donor agency will be able to make a meaningful contribution to the strengthening of these village-level organizations. While INPRES programmes have provided a useful precedent for the devolution of authority down to the *kabupaten* level, the manner in which the government wishes to see the development of the LKMD is still uncertain.

Thus far, the PDP programme, with its concentration on the Bappedas, has not considered the role of the provincial assembly (DPRD). This might be an

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important omission. However, here again the political strategy of the government, its willingness to invest the DPRD with significant authority for provincial and *kabupaten* development, and the evolution of political activity in Indonesia still remain unclear.

3. Area Development Programmes

In contrast to the INPRES programmes, with their emphasis on infrastructure projects, and the PDP which stress the co-ordinating function of the Bappedas, the Government of Indonesia has also embarked upon several area development programmes. USAID has assisted with two such programmes, one in Kabupaten Luwu in South Sulawesi and one in the Citanduy River Basin straddling the boundary between Central Java and West Java.

The strategy which underlies these programmes is one of providing the basic large-scale infrastructure which is felt to be a prerequisite for economic development in the given area. The premise is that no sustained social or economic development can take place until a certain minimum physical infrastructural requirement has been met which will then allow the local population to undertake a variety of new initiatives, with or without additional government incentives. Project Luwu, for example, has provided almost 80 per cent of its funds for the construction and rehabilitation of a major road passing through the length of the *kabupaten*. Substantial funds were also provided for the creation of a series of irrigation systems. Project Citanduy in its first phase provided major funds for flood control and irrigation structures, and is now entering a new phase in which the scale of investment is not as high but in which there continues to be a major emphasis on technical improvements in physical infrastructure.

Because of the large amounts of money involved and the focus on infrastructure, it is not surprising that central level agencies have been actively involved in project implementation. For project Luwu, a centrally-appointed Project Manager has been given the responsibility for co-ordinating the activities of the various sectoral agencies, and it is significant that it was felt necessary to establish a Jakarta office for the project so that the Manager could fulfil his function. For Project Citanduy too, the managers for the various sectoral programmes are appointed from Jakarta, and appear to be answerable to central-level agencies rather than to local ones. While both these projects appear to have made important contributions to the economic development of their respective regions, it is less clear whether they have effectively fostered the development of local government capacities. Indeed, it may be argued that the projects have stunted the development of local government capacities at the same time that they have contributed to the economic advancement of the region. They appear to have vested control over financial mobilization and allocation, policy formulation, project planning and implementation, and general supervision and co-ordination almost entirely in central-level agencies.

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This is particularly the case when, as with Project Citanduy, the project area does not coincide with the boundaries of local government agencies. When this occurs, local agencies are inevitably by-passed in favour of higher level agencies. There is a marked correlation between departments which are said to be highly centralized (such as Public Works) and those agencies with designated work areas which do not coincide with local government boundaries. Finally, projects which require a great deal of co-ordinated planning among different sectoral agencies are likely to increase the role of central-level officials since the strong traditions of sectoral autonomy and lack of co-ordination are most effectively overcome if high officials at the national level are involved in the process and show their support.

Experience suggests, however, that the costs of working above the level of local agencies are high. The subsequent operation and maintenance of the large-scale infrastructure are frequently not supported by the local government which has neither the financial resources nor clear authority to assume responsibility for projects which were planned and implemented without much consultation with them. Such projects are often seen as a gift from the central government, and something which the central government should continue to support with the provision of special subsidies and other budgetary funds to operate and maintain the infrastructure. Moreover, the further removed technical decision-making is from the field, the more likely it is that inappropriate alternatives will be selected and scarce resources misallocated.

4. Upgrading Technical Services of Sectoral Agencies

A substantial portion of training funds made available under various foreign-donor projects have been used to upgrade the technical skills and knowledge of the staff of provincial and *kabupaten* sectoral agencies. For example, the PDP has made a major contribution to the *lamtoro gung* re-greening programmes in both the island of Madura and the province of Nusa Tenggara Timur (NTT), with considerable attention being given to improving the capacities of local forestry officials to plan, implement and monitor such programmes.

The rationale for this kind of approach to strengthening local government capacities seems to be that the delivery of goods and services is the basis of development programmes. To the extent that Indonesia suffers from the limited numbers of skilled government officials with the technical knowledge and experience to manage development programmes, this strategy is seen as an effective way of improving the utilization of public resources. Local government agencies are the appropriate target for such efforts because they are most intimately involved in the day-to-day implementation problems and potentials of all development programmes.

However, the fact that the sectoral agencies are frequently closely linked to central-level agencies, and dependent upon them both for programme funding and for personal professional advancements, means that increased technical capacities

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may not necessarily result in greater responsiveness to local conditions or greater popular control over the planning and implementation of development projects.

A second problem is that of determining which sectoral agency ought to be funded to develop the relevant kinds of technical skills. It is difficult to see on what grounds one sectoral agency is given priority over another. Although USAID has some experience with this kind of approach to regional development and the institutional development of provincial agencies, there have been no systematic studies of the impact of training programmes focused on sectoral agencies and their efficacy in increasing either the delivery capacities of those agencies or the overall strength of the local government apparatus. It is difficult to know what such an evaluation might constitute, and no doubt it would be hard to devise one which adequately captures the benefits of training in technical offices. However, the above argument suggests that the benefits are not necessarily unambiguous, and the process of formulating a broader strategy for the institutional development of local government should attempt to assess the extent to which the benefits can be shown to outweigh the limitations and drawbacks of such a strategy.

5. Strengthening Non-Governmental Agencies and the Private Sector

The relationship between non-governmental agencies and the government's development efforts is unclear and appears to be in flux. Following the events of 1965, the government was initially hostile towards the activities of non-governmental agencies. There was considerable concern that the work of the agencies could mask leftist ideologies and undermine the stability of the New Order. In recent years, however, this attitude appears to have undergone a change. The government now seems prepared to work closely with some non-governmental agencies, at least in a limited number of areas. The work of the Yayasan Indonesia Sejahtera in the field of primary health care and preventive medicine is an excellent example of the manner in which some organizations have been able to forge a working relationship with government authorities to strengthen the competence and capacities of institutions at a local level. However, this is still an area which is undergoing change, and government attitudes are often not clearly articulated and discussed.

Similarly, the government's view of the private sector in Indonesia's development is not always clear. While the government continues to be concerned with small-scale private enterprises, this is balanced by its policy to encourage the co-operative sector at the same time that the state sector is to continue to play a major role in the economy. Many credit programmes for small-scale enterprises in the past have been, in fact, grant or subsidy programmes, the primary achievement of which has been the transfer of resources rather than the encouragement of viable economic enterprises. Moreover, such credit programmes have not been linked with other government policies concerning the development of the private sector and the encouragement of *pribumi* enterprises. One possibly beneficial conse-

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quence of the anticipated tightening of the government budget is the increasing pressure to clarify credit programmes and to put them on a better economic footing so that they will not merely transfer resources, but will assist with the creation of healthy and economically sustainable enterprises.

The rationale behind such an approach is that ultimately the government cannot be responsible for single-handedly undertaking all aspects of social and economic development. The private sector, even if it is not given the scope it might expect under a policy of *laissez-faire* government, does have a significant contribution to make to the nation. It might be argued that, at best, the government can provide the minimum conditions required for private enterprises to flourish, but to do more than this is to invite inefficient allocation of scarce resources and ultimately encourage less than optimal development. Such a strategy does not involve the devolution of authority from central government agencies to local ones, but instead advocates a general curtailment of the authority of all government agencies.

6. Community Development

Because of the historical experiences of Indonesia and the strong centralizing forces mentioned previously, the New Order government has not given much attention to a possible strategy involving a heavy emphasis on community development as an integral part of national development. To a large extent, this reflects a suspicion of programmes which appear to focus on popular mobilization and the development of local initiatives outside the framework of established government programmes. In contrast to India in the late 1950s and early 1960s, Indonesia has not witnessed any great enthusiasm for community development as an essential ingredient in its development programmes.

The rationale for pursuing such a strategy might be that in the end the local populace must assume some responsibility for its own activities and initiatives. It cannot properly continue to rely upon interventions and assistance from outside. Even when such assistance is available, it is inherently short-term and limited, and its ultimate success must rest upon the ability of the local community to assume responsibility for a particular project once government officials (whether central, provincial or *kabupaten*) are no longer available on a day-to-day basis. Without such a capacity at the local level, any intervention would fail to achieve its objectives.

Because of the government's reluctance to embark upon widespread programmes to strengthen community participation and control, the potential contribution of community development programmes has not been fully tested in Indonesia. Perhaps the closest example is the family planning programme pursued by BKKBN, the national family planning agency. This programme has worked through local-level groups to ensure that family planning practices are understood and that those participating enjoy the support and assistance of a locally based

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organization. This seems to have worked, but it is important to point out that it has been backed by a large, well-funded and relatively efficiently managed national bureaucracy which enjoys overwhelming political support at the highest level. It is not clear whether a more generally focused programme concentrating on overall community development in contrast to specific issues such as family planning, would enjoy the same manner of support, either political or budgetary.

Conclusion

As the preceding argument should make clear, the problem of the development of local government capacities in Indonesia is not simple. The turbulent and complex history of post-independence Indonesia, the realities of government financing, the heterogeneity of the nation, and the strength of cultural traditions all combine to make the realtionship between central-level and local agencies problematic. The dimensions of the problem are acknowledged and to a greater or lesser degree understood both within the government and in the international donor community. The fact that the New Order government may have elected to follow policies which have not been in accord with the prescriptions of various organizations and individuals (both within Indonesia and outside it) does not mean that the government is insensitive to the issue.

How Indonesia will deal with this problem in the years ahead is far from clear. Certainly, the anticipated budgetary pressures will force some hard decisions about the allocation of resources and this may ultimately be the best indicator of the government's position on this issue.

Within this complex pattern of conflicting pressures and ambiguities, perhaps the most constructive role a foreign donor agency can play is to provide the budgetary and technical flexibility to experiment with various policy options. Foreign donor agencies may be in a position to pioneer new approaches, or to suffer the consequences of failures more readily than the government. The willingness to do this — and (importantly) the ability to study and learn from such experiences — may offer a significant opportunity for the future. It implies a willingness to tolerate ambiguity, contradiction, and even failure at the same time that it entails a high level of consciousness, openness and clarity. To balance such demands is neither simple nor without risks, but it should perhaps be preferred to blind reliance on past formulations or unyielding prescriptions for the future. To reject both of these will test both the flexibility and ingenuity of the Government of Indonesia.

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NOTES AND REFERENCES

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2. See Benedict R. O'G Anderson's classic essay, "The Idea of Power in Javanese Culture", in *Culture and Politics in Indonesia*, edited by Holt (Ithaca: Cornell University Press, 1972).
3. See Jackson and Pye, eds., *Political Power and Communications in Indonesia* (Berkley: University of California Press, 1978).

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Vietnam's Population: Current Notes

STEWART E. FRASER

Vietnam, for a variety of demographic and developmental reasons, as with many of its Asian neighbours, faces difficulties in providing sufficient educational services for all the children in the country. By the year 1984 nearly 26 million children, or 43 per cent of the country's population, will be eligible for some form of crèche, nursery, primary or middle-school services. The government has stepped up its campaign for implementing a nation-wide family planning programme in an effort to curb the growth rate of the population which is currently approximately 2.5 per cent per annum.

Recent data from one major city in Vietnam, namely Ho Chi Minh City, formerly Saigon, indicate some limited success in coping with the growth rate of Vietnam's largest city. Statistics on contraceptive practices and family planning activities are difficult to obtain as there is little published material available to the interested researcher. However, some figures for the period 1975–81 are now available from the central family planning office and the principal maternity hospital in southern Vietnam.

Vietnam's most recent census conducted in October 1979, the figures of which were released in April 1980, revealed a population of 52.76 million, growing then at the rate of nearly 2.6 per cent per annum.[1] The current estimate of Vietnam's population as of October 1983 with a decreased annual growth rate of 2.0 per cent, would approximate just under 58 million, of whom some 43 per cent, or nearly 25 million, would be 15 years old or under (see Tables 1.3 and 2).

TABLE 1.1
TRENDS IN VITAL RATES FOR VIETNAM: PROJECTIONS
(per thousand)

	1976	*1977*	*1978*	*1979*	*1980*	*1981*	*1982*	*1983*	*1984*	*1985*
Birth rate	39.5	36	31.4	32.8	29.3	28.9	28.5	26.7	25.6	24.4
Death rate	7.5	7	7.1	7.1	7.0	6.9	6.8	6.7	6.6	6.5
Rate of natural increase	32.0	29	24.3	25.7	22.3	22.0	21.7	20.0	19.0	17.9

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TABLE 1.2
POPULATION BREAKDOWN: PROJECTIONS
(in per cent)

	1975	*1979*	*1980*	*1982*	*1984*	*1985*
Rural	81.22	80.79	80.22	79.43	78.64	77.50
Urban	18.78	19.21	19.78	20.57	21.36	22.50

TABLE 1.3
LIFE EXPECTANCY AT BIRTH BASED ON UNICEF ESTIMATES IN 1981
(in years)

	1950–55	*1975–80*	*1980–85*
Male	36.5	51.1	53.5
Female	39.2	54.3	56.7

The figures given by various agencies, including UNESCO, UNICEF, Population Reference Bureau and Vietnamese government offices for life expectancy at birth, vary greatly and should be treated with considerable "deference". For example, for male and female combined, UNICEF suggests 55 years for 1980–85; the Vietnamese General Statistical Office, Hanoi, indicates 60 years in 1978; and the Population Reference Bureau (Washington, D.C.) indicates 54 years for 1983.

SOURCE: Unpublished data supplied by General Statistics Office to UNFPA, June 1981. Figures for 1980 are based on data from only 30 out of 40 provinces. Figures for 1981, 1982 were provided to the writer during a visit to Vietnam in October 1982, by the Family Planning Health Services in Ho Chi Minh City.

The Council of Ministers presented the socio-economic plan for the period 1983–85 to the National Assembly in Hanoi on 22 December 1982. The Chairman of the State Planning Commission and Vice-Chairman of the Council of Ministers, Vo Van Kiet, noted the general directions, tasks, and main objectives of the plan, including a population growth policy for reducing the annual rate of natural increase from 2.1 per cent in 1983 to 1.7 per cent in 1985, and an internal migration target of 1 million (or nearly 2 per cent of the country's total population) to be resettled throughout Vietnam, during the five-year period, 1983–87. It is evident that the government was concerned with the interaction of population growth, basic employment and manpower utilization:

> Finding jobs for labouring people in farming, stock-breeding, forestry exploitation, fishery, handicrafts, small industries and urban services is a task of high socio-economic significance. One million people throughout the country, including labourers and their dependents, should be resettled in new economic

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TABLE 2
SCHOOLING ENROLMENTS: PROJECTIONS

	Age	*% of Total Population*	*1979**	*1980*	*1981*	*1982*	*1983*	*1984*	*1985*
Total Population (m)			52.76	54.13	55.32	56.52	57.65	58.76	59.81
Children**	0–15	(43.25)	22.82	23.41	23.92	24.44	24.93	25.41	25.87
Eligible for:									
(pre-school)	0– 6	(21.39)	11.29	11.57	11.83	12.09	12.33	12.57	12.79
(primary)	7–12	(15.09)	8.72	8.16	8.35	8.53	8.70	8.87	9.02
(middle)	13–15	(6.76)	3.57	3.66	3.74	3.82	3.90	3.97	4.04
(senior)	16–18	(6.13)	3.23	3.31	3.40	3.46	3.53	3.60	3.67

* Population census 1979.

** Assuming there are no major or significant changes in age structure and percentage differentials between eligible school categories.

SOURCE: Composite table derived from information provided by State Bureau of Statistics; UNFPA Feasibility Study 1981; and Central Family Planning Office, Ho Chi Minh City.

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zones. Active preparations should be made for a nationwide and effective redistribution of labour in the next five-year plan.[2]

The demographic realities of Vietnam, in the short run, necessitate focus on 1) a drastic decrease in fertility rates and a reduction in family size; 2) redistribution of population through either internal migration to new economic zones, or transborder migration to neighbouring countries such as Laos, Kampuchea, or emigration abroad by legal or illegal departure procedures; and 3) a more efficient use of land and exploitation of natural and human resources to support the growing population at least at the same, if not an improved, standard of living.

While there are other factors involved and intervening variables to be considered, these three points represent the more obvious and more complex of courses open to planners. Of these, the last point concerning land and resources is a long-term one which may necessitate enormous inputs of both technology and capital. The first aspect concerning drastic changes in fertility patterns is one which Vietnam has only recently started to deal with in a more scientific manner, and to co-ordinate at all planning levels. Of the three, perhaps the use of the migration course has been the one to attract the most attention from both demographers and settlement planners inside and outside Vietnam. On the assumption that overseas departures in the near future will still be severely restricted or interdicted, and that opportunities for land or border resettlement in either Laos or Kampuchea are of an ill-defined and perhaps surreptitious nature, one is left to consider the progress made in internal resettlement plans in recent years. The five-year period 1976–80 saw some five million people resettled either out of urban settings, particularly Ho Chi Minh City, or continuously moved upland towards the Chinese border in the north, or resettled in the Central Highlands or the Mekong Delta in the South. However, the Kampuchean involvement and the consequent Chinese incursion into Vietnam, as well as a variety of economic, developmental, and administrative and management problems, have resulted in a much reduced number of migrations and consequently a reduced programme generally. In fact, the Ministry of Agriculture in October 1982 was reported to have noted that "only during the period 1976–80 were 1,500,000 persons (including 750,000 labourers) from various populous and land scarce areas and cities sent to new economic zones". This figure was reportedly "16 times the total number of people sent for land reclamation during the period 1960–75".[3]

Problems of inadequate planning, insufficient capital, and meagre management skills have beset the efforts of the government in extending the new economic zones (NEZs), and encouraging a steady and increasing number of settlers to take up the opportunities provided under the resettlement plans. According to the Ministry of Finance and State Planning Committee, during the period 1976–80, capital invested in the reclamation of waste land for building new economic zones only accounted for 33 per cent of the planned budget. What was allocated from

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Hanoi was often misused by local authorities or appropriated for "other activities" instead of being spent on land reclamation and housing or welfare infrastructure for the settlers. It is likely that less than a quarter of the funds allocated by the central government actually found its way to directly benefit migrants coming from the Red River Delta of the north. In 1982, it was estimated that less than 60,000 "workers" had been relocated to various economic zones — a far cry from the expectations made five years earlier that at least half a million people would be moved annually by the beginning of the 1980s. In fact, the Ministry of Labour noted that only 95,000 people (including 50,000 workers), barely 57 per cent of the target of 166,000 people for the year, had been relocated to NEZs during the first nine months of 1982, although 50,000 "workers", or 73 per cent of the year's target for this group, had been moved.[4] In spite of the lack of spectacular success the government still adheres to its long-term plans for population deployment, and a figure of four million people moving to the NEZs is still a generalized goal for the period 1981–85.[5]

In January 1983, the Council of Ministers held a conference on New Economic Zones in Cuu Long to discuss manpower problems and population distribution progress, and to draw up an overall evaluation of the resettlement plans for the NEZs. While the conference noted that practical experience had been gained and some major problems identified, it was apparent that real progress had been limited particularly because of "restricted capital and supplies". The conclusions of the conference are perhaps indicative of the limited reliance that can be placed on the resettlement schemes in the near future and on their role as a significant factor in population distribution or in the curbing of population growth. As was noted in the conference,

> The various sectors and regions have not actively moved manpower and population from densely populated areas to regions with many millions of hectares of land which can be cultivated or planted with trees to rapidly exploit this great latent potential. In 1983, the capital, supplies and other conditions are limited. The focus of the task of manpower and population distribution and building of new economic zones is to consolidate existing installations.[6]

Population and Schooling

The government, anticipating the achievement of a natural increase rate of less than 2 per cent by 1984–85, estimates a total population of nearly 60 million at the end of 1985. Table 2 can be used as a general guideline to the planning for school services in relation to both population growth and various sector age levels. On the basis of only partial or incomplete information provided to the writer during his visits to Vietnam in October 1982 and May 1983, an estimate of the total population of children and teenagers requiring schooling and training for both general educational and vocational employment programmes in various age categories

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(with a slightly decreasing natural population growth rate during the period 1981–85, that is, from 2.2 to 1.7 per cent) is given in the table.

Population Structure

The sex ratio of 94.2 per cent men to women, as revealed by the 1979 census, is one of the lowest recorded in Asia, and Vietnamese demographers and sociologists suggest that the figures, showing an excess of 1.51 million women over men, accurately reflects the demographic impact of military and political disorders during the past three decades. In 1979, females numbered 27.16 million, or 51.5 per cent of the population, while males numbered 25.6 million, or 48.5 per cent. The considerable number of deaths, amounting to over 1.2 million in the south between 1960–75, was unevenly distributed between male and female in the ratio of approximately 65:35. The war losses of the north, amounting to approximately 950,000 deaths, tend to show an even more skewed pattern of 80 per cent males to 20 per cent females, reflecting the military situation where predominantly northern males were moved to the central and southern parts of the country for military purposes.

TABLE 3
POPULATION BY AGE GROUPS

Age Groups	*Total*	*Male*	*Female*
0–2	4,657,822	2,389,880	2,267,342
3–6	6,196,016	3,159,984	3,036,032
7–15	12,963,544	6,667,313	6,296,231
16–30	13,861,021	6,541,101	7,315,920
31–40	4,373,710	2,065,028	2,308,682
41–50	4,084,833	1,907,721	2,177,112
51–64	4,080,969	1,855,393	2,225,576
65–up	2,523,851	990,162	1,533,689
Total	52,741,766	25,580,582	27,161,184

SOURCE: October 1979 Census.

Current Population Projections

Demographic statistics vary in their reliability and accuracy. The annual national growth rate was reported as being 2.6 per cent at the time of the census in 1979. The Council of Ministers issued a circular on 12 August 1981 concerning the development of family planning policies and population targets which indicated that the annual natural growth rate had decreased to 2.2 per cent in 1980.[7] The writer, during visits to Hanoi in October 1982 and May 1983, was informed by the State Statistical Office of a growth figure of 2.2 per cent in 1981. The Vietnam Fatherland Front (VFF) Central Committee held a conference on 14 April 1983 with

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various organizations in an effort to improve the family planning programmes. Professor Nguyen Van Dan, Vice-Minister of Public Health, noted the results of birth control campaigns which were conducted in 1981 and 1982 and that "the country's population growth rate [had] decreased from 2.4 per cent in 1980 to 2.15 per cent in 1982".[8] The current targets are 1.7 per cent by 1985 with a differential allowance of 1.5 per cent or lower in the northern provinces, and 1.9 per cent or lower in the southern provinces. It is hoped that a natural growth rate of 1 per cent can be attained by the early 1990s, in order to achieve a population size below 75 million by the year 2000. However, if the present rate of population growth continues for the next 16 or 17 years, it is likely that Vietnam will have to sustain a population of between 95 to 100 million in the year 2000.

The VFF Family Planning Mobilisation Conference of April 1983 noted critically that:

> The birth control campaign has not been conducted widely. A number of localities have not paid adequate attention to it. Party committee echelons and people's committees have shown little concern over guidance work, arguing that this campaign is not pressing or important and, therefore, entrusted it to the public health service and the Women's Union. There has been no close or permanent coordination between the public health service and other services and mass organizations. The birth rate of women workers and civil servants has not decreased and even remained too high in many establishments. Some mothers have up to 14 children. The proportion of mothers having four or more children is 16.48 per cent and has reached 30 per cent in some localities. Methods and forms of education and propaganda are still poor. Means of disseminating information among the masses have not been fully used to support the birth control campaign. A number of systems and policies regarding home allocation and family allowances granted to those with three or more children have not been amended to conform to the campaign.[9]

Based on current imprecise projections, it is likely that if a three-child family remains the norm, the population will approach 80–85 million in the year 2000; however, if the norm of a two-child family is attained, then the target of 65–70 million could be achieved. The one-child family option, if achieved within the present decade, would result in a population of below 60 million by the end of the century. However, this option is regarded by most Vietnamese demographers as unrealistic and not at all feasible from a political viewpoint, nor even desirable from a social perspective.

Current family size norms in the southern provinces, especially in the rural settings, generally still range from five to eight children. In the northern provinces, the range is between three and five children in the rural areas in spite of the twenty-year-old history of family planning which was initiated in 1963 in the former Democratic Republic of Vietnam (DRV).

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Obviously, the target of a 1.7 per cent annual growth rate by 1985 is not likely to be reached. Massive efforts would have to be mounted to implement extraordinarily strict family planning policies to reach this target. The goals may perhaps have been set overly high for political rather than for planning purposes. In the short term they can serve as target figures for a variety of propagandistic or emulative purposes.

However, some successes have been registered during the past decade in implementing and sustaining family planning policies, particularly in the north, and in the last three years limited success has also been achieved in the south, especially in Ho Chi Minh City.

> In 1982 a number of provinces brought down the growth rate to 2 per cent. Hai Hung: 1.8 per cent; Nghe Tinh: 1.83 per cent; Quang Dam-Danang: 1.64 per cent; Ho Chi Minh City: 1.7 per cent, and Ha Son Binh: 1.95 per cent. In 50 districts, precincts and cities and in some 2,000 subwards and villages, the rate was down by 1.7 per cent. The districts of Hoa Lu and Vu Ban in Ha Nam Ninh Province, Hung Nguyen and Huong Son in Nghe Tinh Province, My Duc in Ha Son Binh Province, My Van in Hai Hung Province, Hoan Kiem in Hanoi Municipality and Phu Nhuan in Ho Chi Minh City and the cities of Thanh Hoa and Ha Tinh cut their population growth rate to 1.5 per cent.[10]

However, in the absence of a carefully thought out, humanely conceived and sensitively implemented policy involving a deliberate scheme of incentives and disincentives, it is difficult to envisage dramatic changes ensuing in short-term fertility patterns. It is towards the development of long-term and sound schemes, involving an integrated programme of family planning assistance to Vietnam, that the United Nations Fund for Population Activities (UNFPA) has been increasingly involved during the past four years.[11]

The modest success of the family planning campaigns during 1981–82 have alerted the government to the fact that increasingly drastic measures must be considered and a complete reorganization of the birth control services undertaken. The Council of Ministers, by its Directive 29 of 12 August 1981, had initiated steps to increase the campaigns on a nation-wide basis, but indifference and ignorance, and even negative reaction in a number of provinces had undermined the campaign. The lack of co-ordination between service groups either from the political party structure in the Ministry of Public Health and Women's Union and Youth organizations, had resulted in mediocre results. The April 1983 conference of the VFF laid down a series of goals, targets and recommendations for a seven-point programme to be followed in 1983–85. These included recommendations to 1) step up educational and propaganda work on birth control; 2) popularize basic demographic knowledge (that is, initiate population education courses in schools and colleges) and encourage out-of-school instruction in birth

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control measures; 3) improve co-ordination between health services and mass organizations; 4) improve family life under the "new culture family programme"; 5) extend the training of health cadres specifically in birth control techniques; 6) amend a number of systems and policies that are presently inconsistent with the birth control programmes; 7) promulgate a system of rewards and punishments to decrease family size, and encourage individuals and various work units to "conduct the birth control campaign properly" by offering financial support.

The conference communiqué of April 1983 from the VFF and the Ministry of Health is a realistic statement initiating an effective national campaign to limit population growth, and represents the strongest expression so far of concern for the need for remedial action.

Perhaps one of the most significant steps taken at the conference was the request to the Council of Ministers to set up an effective and co-ordinated population and family planning structure throughout the country with direct linkages from Hanoi to provincial governments and communal administrations. Regulations on birth control, population targets and norms, and a system of incentives and disincentives was also recommended. The current experience of China and the need to carefully link population control with state production plans have not escaped the attention of senior party officials, educational and welfare planners, as well as family health officials. The urgency of the problem and the realization that much more drastic steps need to be taken is pertinently summed up by the concluding statement highlighting the conference's deliberations, namely that "the state should amend a number of systems and policies inconsistent with the birth control campaign and promulgate a system of rewards and punishments to encourage individuals and various units to conduct the birth control campaign properly".[12]

Vital Rates and Family Planning Activities in Ho Chi Minh City

Current and accurate demographic information on vital rates and the progress in family planning activities in Vietnam are not easy to assemble. However, this is perhaps generally a bureaucratic problem of statistical collection, analysis and dissemination rather than one of indifference or "deliberate dissembling". The writer has had a variety of opportunities to discuss health, welfare and education programmes in Vietnam during the past five years, and in particular programmes in Ho Chi Minh City. The notes which follow detail for the first time some of the latest demographic trends and family planning activities in this major urban conglomerate, and indicate some successes and difficulties which have resulted from both national policy implementation and local programme initiatives. They are of interest if for no other reason than that they provide a case study, albeit of a restricted parameter, of an area in Vietnam which has had, and undoubtedly will continue to have, much importance in the future economic and social development of the country.

The accompanying tables and figures provide some idea regarding the vital statistics for Ho Chi Minh City and suggest the kind of health provisions now in

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force after some five years of national political unification. The vital statistics of one city, albeit Vietnam's largest urban conglomerate, do not necessarily reflect the rest of the country, particularly one which is nearly eighty per cent rural based. The city population, said to be 4.5 million in 1974–75, dropped to 3.5 million in 1980, 3.2 million in 1981, and is currently believed to number about 3.1 million.

TABLE 4
VIETNAM POPULATION: VITAL STATISTICS — HO CHI MINH CITY 1975–81

	1975	*1976*	*1977*	*1978*	*1979*	*1980*	*1981*
Birth Rates	30.1	30.0	28.0	24.7	22.6	22.1	21.5
Death Rates	5.1	5.0	6.1*	5.5	5.6	5.5	5.6
Natural Growth Rate	25.1	25.	21.9	19.2	17.0	16.6	15.9

* The death rate went up in 1977 apparently because of continuing rural resettlement and emigration departures out of Ho Chi Minh City of predominantly younger-aged people, leaving a slightly more elderly population remaining in the city; the situation has stabilized somewhat after 1978.

Table 4 suggests that death rates have changed little during the past five years. The Director of Family Planning Services of Ho Chi Minh City, Dr Phan Thi Thuong, provided a review of statistics and indicated that the significant increase in the death rate between 1976 and 1978 was due primarily to three factors: firstly, the continuing rural resettlement programme of sending settlers from the city to new economic zones; secondly, the "emigration" euphemized as "boat people departures", predominantly of young people and children and leaving behind a proportionately more aged population — this changing imbalance between age groups is reflected in mortality figures; and thirdly, the partial deterioration of health services during the period between 1976 and 1978, a situation which has been remedied with the total reorganization of city health care services which are now ward rather than district orientated. The centralized system of health services in force prior to 1978 has now given way to a more decentralized service. Dr Pham Thi Xuan Hue, Vice-Director of the Family Planning Service of Ho Chi Minh City, also concurred on this assessment and suggested that the efficiency and decentralization of family planning services throughout the city's thirteen urban and rural districts have been partially instrumental in bringing about the 29 per cent decrease in birth rate which has occurred during the past five years, from 30.1 per thousand live births in 1975 to 21.5 per thousand in 1981. The combination of a virtually stable death rate (one which probably cannot decline much further in the short run) and a rapidly decreasing birth rate has produced a 37 per cent decrease in the natural increase rate between 1975 and 1981. The change has been the direct result

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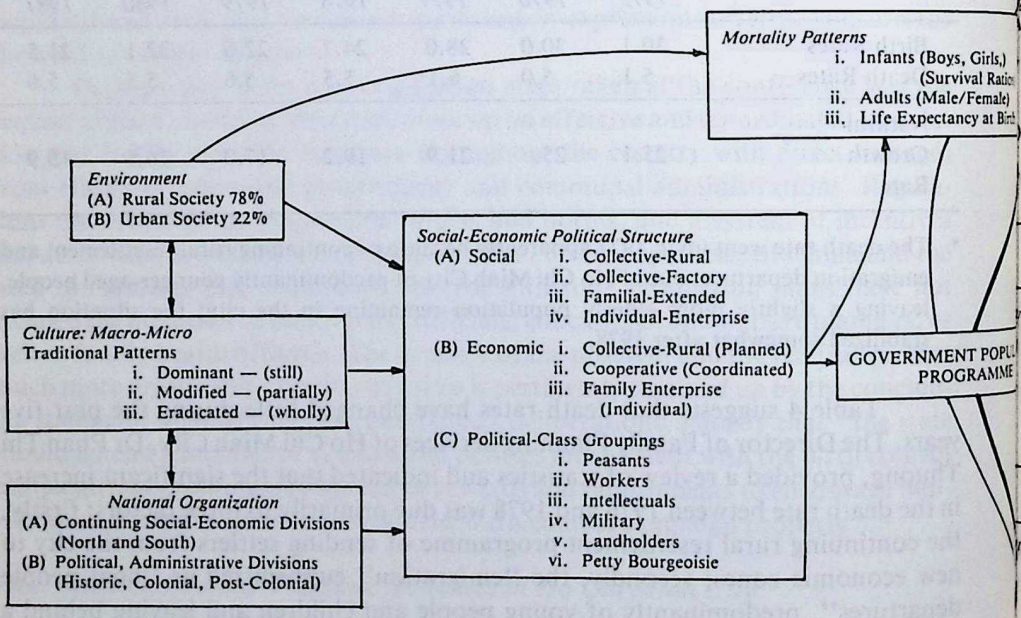
VIETNAM: FAMILY FORMATION: FACTORS INFLUENCING FERTILITY DETERMINANTS*



* With acknowledgements and adaptations from: David Yaukey "On Theorizing About Fertility", *The American Sociologist*, No. 4 (1969) p. 101; Ruth Simmons, Gayl D. Ness and George B. Simmons, "On the Institutional Analysis of Population Programs", *Population and Development Review* 9 no. 3 (September 1983). [Figure: An Expanded Model for the Analysis of Fertility Levels, p. 466].

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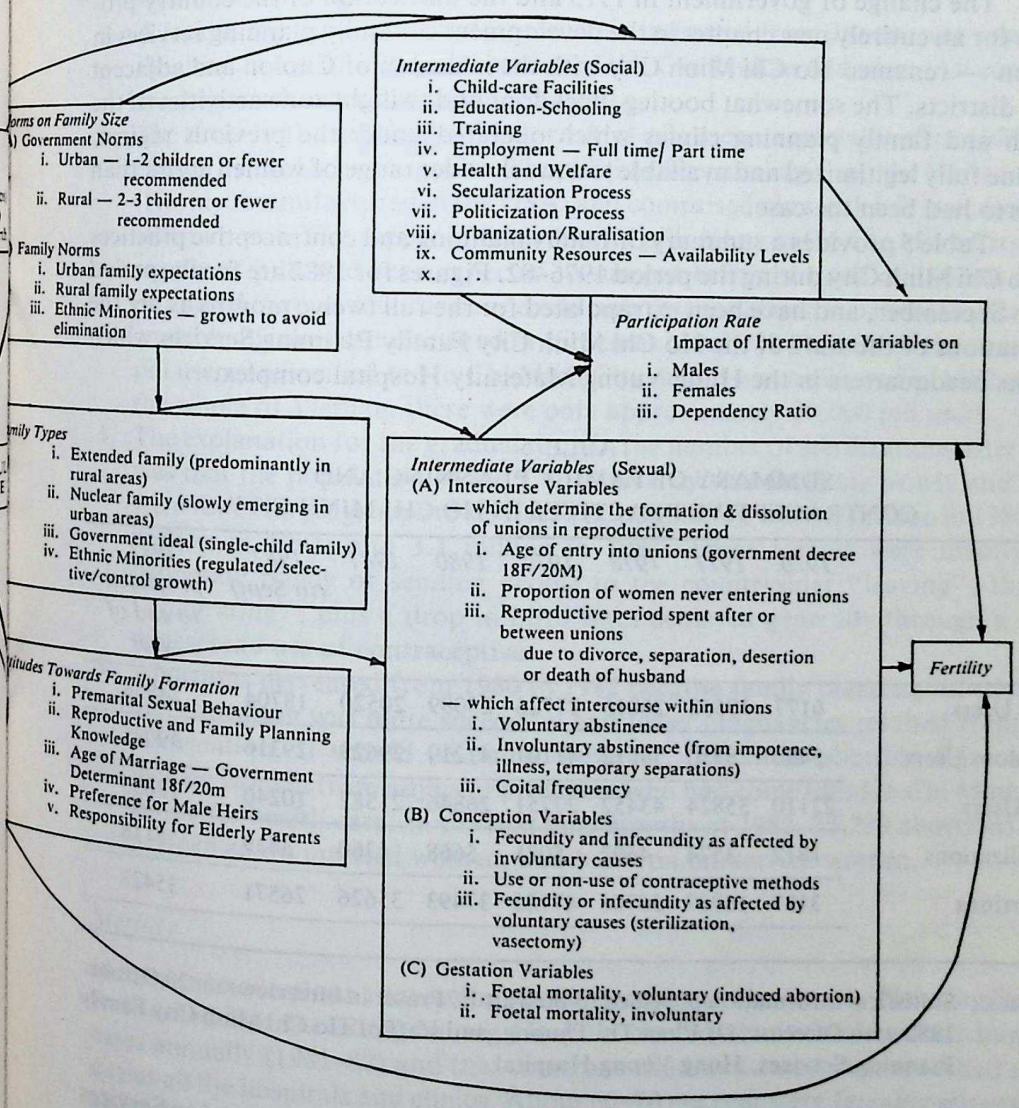

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of initiating and developing family planning services on a scale far exceeding the previous government's efforts. Although the Saigon government had started in 1972 to make some provisions for family planning programmes, it had not entirely discarded many of the pro-natalist, discriminatory and anti-family planning legislation inherited from the former French colonial government.

The change of government in 1975 and the unification of the country provided for an entirely new chapter in the development of family planning services in Saigon — renamed Ho Chi Minh City with the inclusion of Cholon and adjacent rural districts. The somewhat bootleg, backdoor and twilight zone activities of the health and family planning clinics which operated under the previous regime, became fully legitimized and available to a much wider range of women at risk than hitherto had been the case.

Table 5 provides a summary of family planning and contraceptive practices in Ho Chi Minh City during the period 1976–82. Figures for 1982 are for the period up to September, and have been extrapolated for the full twelve months as per the estimations of the staff of the Ho Chi Minh City Family Planning Services which has its headquarters in the Hung Vuong Maternity Hospital complex.

TABLE 5
SUMMARY OF FAMILY PLANNING AND
CONTRACEPTIVE PRACTICES IN HO CHI MINH CITY

	1976	*1977*	*1978*	*1979*	*1980*	*1981*	*1982 (to Sept)*	*1982 projected to end of year*
IUD Users	6177	10552	26016	27726	25089	20520	18704	24938
Condom Users	5490	28550	54612	41101	47219	29629	29316	39088
Pill Users	22110	35824	43452	27751	26846	21582	10240	13653
Sterilizations	1812	3574	4692	5081	5668	4360	3839	5118
Abortions	3187	18987	36708	47725	37493	35626	26571	35428

SOURCE: Statistical information provided to Stewart E. Fraser in interviews on 20 October 1982 with Director, Dr Phan Thi Thuong, and staff of Ho Chi Minh City Family Planning Services, Hung Vuong Hospital.

With regard to the five categories of statistics, the Family Planning Services staff advised caution in the interpretation of the data and provided some tentative explanations as to the considerable fluctuations evidenced in the brief history of

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contraceptive usage during the past five years in Ho Chi Minh City. Their explanations (without any attempt to verify their accuracy) are as follows:

1. During the period 1976–81 there were 116,000 registered IUD users. The drop in the number of users in 1980–81 was partly due to procurement difficulties and user resistance; the estimated total of IUD users between 1976 and 1982 would be more than 140,000.
2. A lack in the supply of condoms, mainly imported from Japan, was related to the drop in aid to Vietnam because of the Cambodian situation. All condoms are imported; none are produced locally.
3. The drop in the number of birth-control-pill users, especially after 1979, was caused by the lack of supplies. The pills had been mainly from the United States (Noriny, manufactured in the USA) and comprised old stock left over from the Vietnam war. The supply of birth control pills is low in Ho Chi Minh City. The supply of pills had been expected to run out before the end of 1982 as it was estimated that current supplies could only last for about five months. No birth control pills are manufactured in Vietnam. Nearly 50 per cent of the country's pill users are located in Ho Chi Minh City, and it was estimated in 1982 that in the whole of Vietnam there were only approximately 20,000 pill users.
4. The explanation for the gradual drop in the number of sterilizations after 1980 was that the population of Ho Chi Minh City was declining slowly and there were fewer target groups to service. The population was 3.5 million in 1980; 3.2 million in 1981; and 3.1 million in 1982. Three factors were involved: a deliberate policy of sending people to the countryside; "leaving", that is, "emigrating"; plus a drop in birth rates achieved generally through a more widespread use of contraceptives.
5. Abortions decreased from 1980 to 1982 because family planning information and education was more successful and fewer pregnancies resulted from misinformation. It should be noted, however, that these abortion figures also include women from adjacent provinces who had come into Ho Chi Minh City for better health care. In the first nine months of 1982, 25,289 abortions were performed on married women, and 1,287 on unmarried women.

Sterility

In answer to questions concerning sterility problems, the Family Planning Service staff noted that the Hung Vuong Hospital treated about three to four hundred cases annually (1981–82) and that some one thousand cases were recorded in the city at all the hospitals and clinics. About 60–70 per cent were female patients, and about 30–40 per cent males. Husbands and wives came for treatment together and the success rate was between 25 and 30 per cent, with female sterility being overcome for more than 60 per cent of the successful cases treated.

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Family Size Ideals

The ideal family size in Ho Chi Minh City (as it is throughout the country) is two children, a policy which was laid down in the 1981–85 five-year plan. Certain state and city office workers are expected, and "vigorously" encouraged, to keep to this norm while rural dwellers, especially farming peasants, are encouraged to aim at two or less, but are "permitted" to have three. Dr Nguyen Thi Nhu Hgoc, head of the maternity ward in the Hung Vuong Hospital, and a team leader for the rural extension programme of the hospital, noted that this was a difficult task in the southern provinces due to user resistance, inadequate educational programmes, and a lack of teaching materials, posters, and pamphlets with which to work with rural women. Nonetheless, the United Nations Fund for Population Activities (UNFPA) headquarters in Hanoi has started a pilot programme in Song Be province and in the Mekong Delta since September 1982 to develop local materials for instructional purposes. A trial of novel experimental material — posters, teaching aids, and illustrated pamphlets — was conducted during November and December in the Delta area by a combined team from UNFPA, Hanoi, the Ministry of Health's Regional Office in Ho Chi Minh City, and the Audiovisual Unit of UNESCO, Bangkok. This was the first time that such a collaborative effort had been mounted, and was obviously long overdue. The severe shortage of newsprint, inks and modern printing machinery in Vietnam, and especially the lack of paper, hinders all educational and propaganda efforts, particularly if they are experimental. Local government officials are loathe to use up their allocation of scarce newsprint to develop birth control pamphlets and posters simply on a trial basis; they believe that it is the responsibility of the Family Planning Central Office in Hanoi to do so.

Population Contrasts with China: A Summary Description

In conclusion, it may be interesting to put Vietnam's population situation in juxtaposition with that of China. While a brief comparison may be superficial, nonetheless a notation of some of the main difficulties facing each country with burgeoning populations, might engender some understanding, if not sympathy, for the problems which they currently face.

The Vietnamese and Chinese governments have at times considered different approaches to somewhat similar problems. The different political, domestic and international situations of both countries during the past thirty years make it difficult to consider them in a satisfactory co-adjacent framework. Accordingly, contrasts rather than comparisons are perhaps more appropriate. Population policy formation in both countries is dependent on the importance placed on evaluating demographic information in its fullest context. Availability of basic demographic information, open and public discussion of and a vigorous coercive campaign to reduce birth rates, are far more prevalent in China than in Vietnam.

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China appears to have every likelihood of having to support a population of at least 1,200 million, and Vietnam some 75 million by the year 2000. These projections are based on the population figures of 1,008 million for China (excluding Hong Kong, Macau and Taiwan) recorded in the 1982 census, and 56 million for Vietnam, estimated for 1982, based on the 1979 census with appropriate incremental additions.

The population growth rate for China is currently estimated to be 1.4 per cent per annum, and for Vietnam 2.5 per cent per annum, with both countries recording internal regional differences. The obvious gross size disparity between the populations of China and Vietnam are somewhat less important than the considerable internal differences in population growth within the two countries. In Vietnam, this is reflected in the annual growth rates and greatly differing family size between northern and southern Vietnam. The annual natural population growth rate in the northern provinces approaches 1.7 per cent and in the southern provinces it is approximately 3.5 per cent.

There are also marked differences in regional population growth, not to mention rural-urban differences, within China. The variations currently range from the approximate natural growth order of 1.0 per cent annually in Sichuan, China's most populous province and labelled a "model birth control province" to 2.5 per cent in Guangdong with its high levels of fertility and poorest birth control record among China's 29 provinces.

Population policy in China since 1979 has focused predominantly on promotion of the "one child family" programme. Other measures to encourage a lowering of birth rates are the encouragement of late marriages and delayed childbirths. In contrast, Vietnam still eschews two children as an ideal family-size — more than three is merely "discouraged". These generalized goals of family-size ideals are given priority together with a firm, but not obsessive encouragement of both late marriages and delayed childbirths. The continual improvement in health, especially of mothers and children, in both Chinese and Vietnamese societies, remains an overriding policy priority as with the target of involving the elusive male in a more responsible family planning role. On the other hand, in China, certainly since 1982, the single child, "other things being equal", receives priority in medical health and educational treatment over multiple-child families.

Both countries have significant ethnic minorities (China has nearly 6.7 per cent and Vietnam, about 4 per cent) and both governments vary their official national policy of strictly limiting family size in favour of the minorities. The governments are cognizant of the social and political sensibilities of the large numbers of minority ethnic peoples mostly populating the border areas of their countries. China and Vietnam are the homes of large ethnic minorities such as the Meo and Thai along their common border.

Vietnam has had for over 35 years a well recorded history of internal turmoil, civil war, and international conflicts with a series of countries including

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France, the United States and its allies, and then, more recently, China and Kampuchea. Vietnam, for long a divided country, has been left a legacy of conflicting attitudes, varying policies and uneven programmes concerning population control and family planning as it has in the sphere of land ownership, business and trade, as well as ideologically differing attitudes towards education, schooling and technological development. Some of these problems have been only partially solved with the political unification of the country in 1975.

In the northern provinces, a modestly articulated plan for population limitation was first considered in 1960 and then only partially implemented during the mid-1960s. The former South Vietnamese government in the last two years prior to the fall of Saigon in May 1975 was beginning to consider rapid population growth as a serious economic problem rather than merely as a social and cultural phenomenon. However, the governments, both in the north and south, were constrained, for somewhat different reasons, in developing comprehensive population limitation policies because of overriding manpower and military considerations imposed by the continuous civil conflict complicated by extensive foreign involvements. In contrast, China has had ample opportunities during the past two decades to develop adequate and cohesive population policies, luxuries which have been denied the Vietnamese, but it has vascillated until recently in developing and sustaining long-term national policies and integrating sound family planning programmes with other sectors of government activity. No less than four major attempts in starting national birth control programmes have been undertaken, the last, commencing in 1979–80, being the most controversial with its focus on implementing a one-child family policy.

Perhaps the differing degrees of social stability prevailing in the two countries is most evident from examining the male and female imbalance. In China, the 1982 census revealed an overall imbalance of the sexes in the ratio of 106 males to 100 females, or 51.5 per cent males and 48.5 per cent females. The Vietnamese figures based on the 1979 census would suggest a ratio of 94.2 males to 100 females, or 47.1 per cent males and 52.9 per cent females. The higher percentage of males in China in 1982 was almost in the same proportions as in the 1955 and 1964 census. The new government policy of promoting a one-child family in China since 1979 may have important demographic implications especially if female infanticide is common. Since 1981 there has been increasingly better documentation of this practice and it has been the subject of considerable public discussion. In contrast, the Vietnamese male-female imbalance is a direct result of the war, and particularly during the decade 1966–75, the movement of young males from the north to the areas of conflict in the southern and central highlands. The border conflict with China in 1979–80, and the continuing military involvement in Laos and Kampuchea will add to male deaths and continue to influence the demographic imbalance, particularly as it affects males between 20 and 35 years of age. War continues to exact its toll on the Vietnamese population.

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APPENDIX 1
VIETNAM: POPULATION DENSITY BY PROVINCES AND MAJOR CITIES

	Region, major city, province	*Surface area (km^2)*	*Density (person per km^2)*
North			
Hanoi (capital)		597	2418
City	Hai Phong	1,515	786
Province:	Lai Chau	17,408	15
	Hoang Lien Son	14,125	48
	Ha Tuyen	13,519	51
	Bac Thai	8,615	87
	Cao Lang	13,781	61
	Son La	14,656	28
	Vinh Phu	5,187	305
	Ha Bac	4,708	311
	Quang Ninh	7,076	99
	Ha-son Binh	6,860	298
	Hai Hung	2,526	764
	Thai Binh	1,344	1054
	Ha Nam Ninh	3,522	731
	Thanh Hoa	11,138	203
	Nghe Tinh	22,380	121
	Total	148,957	. . .
South			
Ho Chi Minh City		1,815	1876
Province:	Binh Tri Thien	19,018	92
	Quang Nam - Da Nang	11,376	124
	Gia Lai - Cong Tum	18,480	25
	Nghia Binh	14,700	122
	Dac Lac	18,300	20
	Phu Khanh	9,620	111
	Lam Dong	10,000	34
	Thuan Hai	11,000	76
	Song Be	9,500	59
	Dong Nai	12,130	104
	Tay Ninh	4,100	153
	Long An	5,100	163
	Tien Giang	2,350	484
	Ben Tre	2,400	388
	Dong Thap	3,120	318
	Cuu Long	4,200	314
	An Giang	4,140	329

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Hau Giang	5,100	366
Kien Giang	6,000	139
Minh Hai	8,000	123
Total	180,449	. . .
Total	329,406	. . .

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Co-operation in Southeast Asian Fisheries[1]

GEORGE KENT

Under the new Convention on the Law of the Sea signed in Jamaica in December 1982, the rights and responsibilities of nations to manage and develop their offshore fisheries are fully recognized. This affirmation of national rights creates new opportunities for each individual nation, as well as new possibilities for co-operation among nations. Several articles of the Convention establish positive obligations to co-operate, or at least to try to co-operate. Article 123 says that "states bordering an enclosed or semi-enclosed sea" (such as the South China Sea) "shall endeavor . . . to co-ordinate the management, conservation, exploration and exploitation of the living resources of the sea . . .". Specific obligations to co-operate with respect to fisheries are also contained in Articles 63, 117, and 118.

Apart from this development in the law of the sea, increasing attention is being given to co-operation among developing countries as a means towards achieving a New International Economic Order. In a survey of possibilities for economic or technical co-operation among developing countries, one observer argued:

> Fisheries represent a special and new field of bilateral, regional and inter-regional co-operation, particularly in respect of the exclusive economic zones envisaged by the Third United Nations Conference on the Law of the Sea and already established by a number of countries. Efficient utilization of exclusive economic zones by developing countries will require a series of joint actions — exchange and transfer of modern technologies, joint fishing, processing and trade undertakings, joint training of personnel, joint production of fishery equipment and joint building of vessels.[2]

The opportunities may be substantial. The purpose of this study is to explore the potential for co-operation with respect to fisheries among the nations of Southeast Asia.

Varieties of Co-operation

Whether viewed historically or in terms of prospects for the future, several different approaches to regional co-operation can be distinguished:

1. informal contact;

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2. harmonization of laws and policies;
3. treaty arrangements;
4. regional organizations;
5. joint activities.

Informal contacts commonly focus on the exchange of information, whether among government officials, businessmen, or fishermen. At times, the informal contact may involve trade, whether cash or barter, whether legal or illegal. There has been substantial informational contact in relation to fisheries in Southeast Asia, but the experience has not been documented and its potential and problems have not been systematically explored.

Harmonization — the deliberate alignment of the laws and policies of different nations for the purpose of fulfilling their national interests — has not yet been widely practised. Harmonization with respect to matters concerning fisheries has been pursued most systematically by the European Economic Community and the South Pacific Forum Fisheries Agency.[3]

Treaty arrangements have been widely used to establish co-operative relationships in fisheries in other parts of the world, but they have not been used extensively in Southeast Asia. One exceptional example is the series of agreements through which Indonesia agreed to permit Japan to fish under specified terms in the Banda Sea.[4] Agreements granting access to fisheries can be understood as particular forms of treaty arrangements.

Regional organizations have frequently been used as the basis for co-operation among fisheries in Southeast Asia.[5] Such organizations may take a wide variety of forms, ranging from bodies with little power and essentially restricted to facilitating the exchange of information, to those with extensive power for the direct management of specific fisheries.

The most demanding form of co-operation is joint activities involving sustained close interaction in specific enterprises or projects. The most common form has been joint ventures, typically involving a host nation within the region in a contractual arrangement with representatives from an outside, industrial nation.

With the recent extension of jurisdictions, new and different opportunities have opened up. Several different kinds of co-operation in fisheries that might be contemplated are surveyed here, beginning with the less demanding and concluding with the more demanding, in terms of intensity of involvement. In general, co-operation can be viewed as more demanding if it requires standing institutional arrangements than if it does not, and if it requires sharing of risks in a commercial enterprise.

The broad arenas to be reviewed here are:

1. information exchange, research and training;
2. access arrangements;
3. surveillance and enforcement;
4. conservation;

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5. production;
6. processing;
7. marketing.

Major advantages and disadvantages of co-operation in these areas are also discussed. Table 1 highlights some aspects of the following discussion.

TABLE 1
ARENAS OF POSSIBLE CO-OPERATION

1. *Information Exchange, Research, and Training*
   - Advantages:
     - light involvement
     - inexpensive
     - virtually risk-free
     - can minimize wasteful competition
     - strengthens international relations
   - Disadvantages:
     - modest benefits
     - can help competitors
2. *Access Arrangements*
   - Advantages:
     - yields substantial revenue
     - helps in stock assessment
     - can provide technology transfer
     - can provide political leverage
     - makes fuller use of resources
     - relatively light involvement
   - Disadvantages:
     - can deprive national fishermen
     - may impede national fisheries development
     - raises security and enforcement problems
     - risks overfishing
     - no local employment generated
3. *Surveillance and Enforcement*
   - Advantages:
     - economies of scale
     - can strengthen regional security
     - can reduce conflict
     - can be linked with other monitoring and security operations
   - Disadvantages:
     - may require exposing national security systems
     - legal systems differ
     - costly
     - limited benefits
     - possibly difficult co-ordination
4. *Conservation*
   - Advantages:
     - fuller use of resources in the long-term
     - protect endangered resources
   - Disadvantages:
     - little short-term benefit

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5. *Production*
   Advantages:
   - increased benefits
   - risks may be shared

   Disadvantages:
   - requires intense involvement
   - requires substantial capital
   - possibly high risks

6. *Processing*
   Advantages:
   - substantial benefits
   - risks may be shared

   Disadvantages:
   - possibly high risks
   - requires substantial capital
   - requires intense involvement

7. *Marketing*
   Advantages:
   - can yield substantial benefits
   - limited risks

   Disadvantages:
   - can help competitors

1. Information Exchange, Research, and Training

Regional co-operation is promoted most vigorously among countries which have linked interests, as in the case of migratory stocks, but co-operation is also possible among countries which have shared, but not necessarily interconnected, interests. For example, neighbouring countries could work together on investment planning, small-scale fisheries development, training, and transfer of technology.[6] Co-operation in relation to shared concerns would generally be centred on information-related activities. The United Nations programme on Technical Cooperation Between Developing Countries (TCDC) supports this idea that assistance of the sort which developing countries habitually obtain from developed countries can often be obtained from exchanges among themselves, with considerable political advantages. The Bay of Bengal Programme, which involves Malaysia and Thailand with Bangladesh, India, and Sri Lanka, is a significant initiative in this direction.[7]

A great deal of valuable experience in information-related co-operative activities has already been accumulated through the work of international organizations. But much more can be done. There are many possibilities for exchanges relating to the management of small-scale fisheries. For example, the idea of "Territorial Use Rights in Fishing" (TURF) can be developed.[8] Ideas related to aquaculture could be shared. More could also be done on the protection of the environments of fish stocks, possibly through the United Nations Environment Programme. There could also be increased exchange of assistance in resource assessment.

Information exchange could focus on ways in which fisheries could be more helpful in alleviating chronic undernutrition, a major concern shared by several of

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the nations of Southeast Asia.[9] The problem of meeting basic nutritional needs is primarily a national rather than an international problem, but there may be some opportunities for regional co-operation on this issue.

With the extension of jurisdictions, all coastal nations face newly enlarged responsibilities for fisheries development planning. In the past, most development planning has been land oriented. Thus, it is possible that the nations of Southeast Asia could benefit from co-operation in planning the development of their fisheries. It could also help to ensure that neighbouring nations' fisheries evolve in ways that are complementary rather than competitive, so that the industry can be far more efficient. There might be considerable benefit in co-ordinating investments; a co-ordination among planners would facilitate approaches to outside development agencies. Indeed, these development agencies might even support systematic communication among fisheries planners.

Whether it is in planning or any other aspect of fisheries, the major appeals of information exchange programmes are that they should be relatively inexpensive, they do not involve large risks, and they help to build better relationships. One major difficulty with information exchange programmes is that there is often inadequate appreciation of the value of information, so that its producer or supplier is not adequately compensated. Information is not free. Another problem is that it can be difficult to initiate programmes which provide needed information exactly when and where it is needed — there are many sophisticated but idle data banks which attest to this. Also, there is the problem that much information is viewed as being proprietary in nature, not to be shared. Broadly, there is always a nagging question why and to what extent one should help a potential competitor. Perhaps the greatest difficulty of all is that often, nations simply do not see much advantage in exchanging information or co-operating with respect to research or training.

2. Access Arrangements

The extension of jurisdictions naturally leads to the consideration of co-operation with respect to licensing or the payment of a "fishing fee", or more generally, access arrangements, since waters which previously had been freely accessible are no longer open. Access agreements between one country and another are in themselves a form of co-operation, but the discussion here is also concerned with co-operation *about* access agreements. For example, co-operation could be in a form comparable to that undertaken in the South Pacific through the Forum Fisheries Agency. In that arrangement, nations of the region work to establish common policies with which to face nations outside the region.[10] Another possibility is for nations of the region to reciprocally arrange for privileged access by nations within the same region.

The most ambitious form of regional co-operation in access arrangements would be the establishment of a single-merged zone, so that a single licence would

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provide equal access to all waters of the region. However, there are many possibilities for co-operation short of that extreme. For example, it is possible to consider co-ordinated but not combined licensing arrangements, so that fishing vessels can move with relative ease from the jurisdiction of one country to that of the neighbouring country. Alternatively, transit arrangements could be made liberal, while fees and royalties could be paid to the nation in whose jurisdiction the fishing is undertaken.

The nations of Southeast Asia have shown little receptivity to simple licensing arrangements, preferring to engage in joint-venture operations with outside nations. At the same time, nations outside the region have not shown great interest in obtaining licences to fish in Southeast Asian waters. And just as the nations of Southeast Asia have not been eager to offer access arrangements to nations from outside the region, they have not been receptive to proposals for access from countries within the region itself.

3. Surveillance and Enforcement

Possibilities for co-operation with respect to surveillance and enforcement are greatly enhanced with the extension of jurisdictions.[11] The more ambitious ideas for regional co-operation in this sphere include jointly operated high technology schemes such as satellite or high altitude aircraft surveillance systems, possibly together with a joint coastguard.[12] More modest proposals suggest the exchange of particular kinds of information such as vessel movements, or even more modestly, information on methods and techniques. Some possibilities for co-operation with respect to enforcement are suggested by the Pacific Islands' approach to enforcement. Vessels convicted of poaching in the fishing zone of any member of the Forum Fishing Agency may be deprived of access to the waters of any other member nation. Members have also agreed to a vessel registration system in which only vessels registered with the Forum Fisheries Agency are allowed to fish for tuna in any member's economic zone.

There may be some interest on the part of nations outside the region to assist in the development of co-operative surveillance and enforcement systems. Some might be interested in selling equipment for the purpose. Outside nations might have an interest simply in promoting the overall security and stability of the region. The home nations of distant-water-fishing vessels interested in gaining access to the region might be willing to assist in the control of vessels of their nationals, particularly if that became a condition of agreement to access rights.

The major advantage of regional co-operation with respect to surveillance and enforcement is that it can provide significant economies of scale, not only with respect to hardware and other capital costs but also with respect to operations. It can also provide spin-off benefits for other sectors by, for example, helping in pollution monitoring. It can also help to enhance regional security.

Although co-operation in surveillance and enforcement might yield some

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savings, it might nevertheless still be too costly. A more significant disadvantage is that nations might not want to depend on one another for any aspect of their security, especially when co-operation might require opening one's own system to observation by outsiders. Another factor is that the nations of Southeast Asia have substantially different legal systems and political cultures, so that even at a technical level co-operation might be quite difficult. The major factor inhibiting co-operation is that while some may want to minimize poaching, others have opposite interests; thus, collaboration among them would be quite unlikely.

4. Conservation

Regional co-operation for the conservation of fisheries resources is most plausible for shared and migratory stocks. Article 63 of the Convention on the Law of the Sea deals with shared stocks, that is, stocks which "occur within the exclusive economic zones of two or more coastal States". In such cases, the states concerned are called upon to "agree upon the measures necessary to coordinate and ensure the conservation and development of such stocks . . .", whether directly or through appropriate subregional or regional organizations. The major shared stock in Southeast Asia is the mackerel, for which the Philippines, Indonesia, and Malaysia fish in the Celebes sea. If fishing of this stock is to be undertaken, arrangements need to be worked out among the states concerned.

Article 64 of the Convention deals with highly migratory species such as tunas. It calls upon those who fish for such species in the region to "cooperate directly or through appropriate international organizations with a view to ensuring conservation and promoting the objective of optimum utilization of such species throughout the region, both within and beyond the exclusive economic zone". Tuna migrate throughout the exclusive economic zones of several of the nations of Southeast Asia. Thus, fishing efforts off the shores of one nation on the migratory route may damage prospects for fishing by other nations on the route. Some waters of the region are particularly important as spawning grounds for tuna, but because of the patterns of migration, a nation protecting such spawning grounds might not benefit from that effort. Appropriate management arrangements may need to be worked out among the parties concerned which include not only those in Southeast Asia but also some nations in the South Pacific.

Shared stocks are not exploited intensively enough in Southeast Asia to stimulate co-operative efforts in conservation. Co-operation with respect to tuna seems a more likely prospect. Questions have already been raised about the protection of spawning areas in the economic zones of particular nations for tuna which migrate and are caught by other nations. Another issue is that young tuna are being caught in some areas, partly because they migrate out of national waters before they mature, and partly because the catching gear is not sufficiently selective. Although it has not yet become an international issue in Southeast Asia, it is evident that fishing of migratory stocks in one nation's jurisdiction could affect

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fishing in the jurisdictions of other nations. The potential for conflict carries with it the potential for co-operation. These problems are likely to become serious in the future, so that anticipatory planning for dealing with them is in order.[13]

There may be some opportunities for co-operation with respect to fishes other than the shared and migratory stocks. Where nations of the region find that they have common problems in the conservation of certain types of fishes, they could benefit from the exchange of information, possibly through the exchange of expert consultants. Moreover, it should be understood that conservation refers not only to the prevention of biological overfishing, but also to the protection of spawning grounds and habitats. The idea of conservation can also be applied to other resources such as energy and money. Nations of the region could exchange information on the use of energy-saving techniques for fish production and processing, and they could work together to help prevent the over-capitalization of fisheries.

5. Production

Co-operation with respect to fisheries in Southeast Asia thus far has been undertaken in relation to information exchange, research, and advisory services. There has been no attempt at positive management of fisheries production at the regional level, and this can be considered, particularly for shared or migratory stocks.[14] Co-operation in fisheries management might take a variety of forms. The most demanding, in terms of intensity of involvement, would be the creation of a single corporate structure to manage particular fisheries, under the joint control of representatives of several nations. The corporation would operate a single regional fleet of fishing vessels. A model of this symmetrical multinational corporation is provided by the Scandinavian Airlines System. Specific proposals have been made by members of the Forum Fisheries Agency for the creation of such a regional fishing operation for the western Pacific, primarily for the purse-seining of tuna.

More modest arrangements could take the form of joint ventures of various kinds. For minimal involvement, nations of the region could undertake "joint" fisheries production by giving independent fishermen of each of the nations equal access to some specified zone. This form of joint production might be particularly suitable for the exploitation of areas of unresolved jurisdiction.

The most common form of co-operation in production, apart from simple access agreements, is the fisheries joint venture. Joint ventures usually involve host countries which provide access to fish stocks and some labour, together with distant developed countries which provide capital, markets, technology, and management. It is not usual to have joint ventures established on a regional basis among countries of similar levels of development. In either model, joint ventures may take many different forms, but the principal types are equity joint ventures and contract joint ventures based on the chartering of vessels.

The principal difficulty with regional joint ventures or other collaborative

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forms of production is that they may not yield substantial added benefits to the nations concerned; that is, co-operation might not yield significant benefits beyond what each of them could obtain by acting independently. Of course, the effects would differ according to the specific character of the arrangements proposed.

6. Processing

"Regional fisheries management" is ordinarily taken to refer to co-operation in the production phase, the catching of fish. It may also be possible to undertake co-operative efforts in processing or marketing or some integrated combination of these three phases. In Southeast Asia, regional joint ventures in processing might be considered for foreign markets (such as canning of tuna), for import substitution in regional markets (for example, to replace canned mackerel presently imported from Japan), or for special products for the local markets (such as fish pastes or snacks).

Joint ventures are ordinarily understood to be commercial enterprises. However, the idea might be extended to encompass supporting infrastructural arrangements, such as a regional fishing port, as well. Port infrastructure could be developed on a regional basis and accommodate several enterprises of each member nation. Enterprises which are functionally independent but share some infrastructural elements might have significant advantages over wholly independent enterprises.

Southeast Asia has already accumulated good experience with one special form of joint venture in its complementation schemes.[15] Comparable arrangements might be considered for fisheries.

Regional processing joint ventures would not be warranted unless these can yield greater benefits to the participating nations than if they acted independently. However, it is difficult to design co-operative ventures for which the benefits would be large enough to outweigh the disadvantages. One major factor is that most nations inherently resist co-operative commercial ventures, preferring instead to undertake activities which are fully under national control. Another difficulty is that new commercial ventures might displace operations which had previously functioned illegally or informally. Despite the lack of sanctions, those operations may serve national interests. In such a situation, new formal agreements which displace old operations are likely to be strongly resisted.

7. Marketing

As Table 2 shows, the countries of the Association of Southeast Asia Nations (ASEAN) have a larger volume of trade among themselves than other comparable regional groups of developing countries. The potential for fisheries trade in the region is suggested by the historical patterns. In the early 1960s, it was observed that:

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TABLE 2
TRADE WITHIN REGIONAL GROUPS OF DEVELOPING COUNTRIES

Group	*Value of Regional Trade, 1980 (US$ million)*	*Regional Trade as Share of Total Group Exports (percentage)*
Association of Southeast Asian Nations (ASEAN)	11,918	17.8
Bangkok Agreement	517	1.8
Central African Customs and Economic Union (CACEU)	200	4.1
Central American Common Market (CACM)	1,141	22.0
Caribbean Community (CARICOM)	354	6.4
Latin American Free Trade Association (LAFTA)	10,217	13.5
Andean Group (within LAFTA)	955	3.5
West African Economic Community (WAEC)	296	6.9
Economic Community of West African States (ECCWAS)	1,056	3.9
Great Lakes Economic Community (GLEC)	5	0.2
Meno River Union (MARION)	2	0.1
Regional Co-operation for Development (RCD)	500	2.7

SOURCE: Boris Cizelj, "Factors of Interregional and Regional Co-operation" in *The Challenges of South-South Cooperation*, edited by Breda Pavlič, Raul R. Uranga, Boris Cizelj, and Marjan Svetličič (Boulder, Colorado: Westview Press, 1983), p. 31.

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> A great number of cured [salted and dried] products are being produced, particularly in Southeast Asia, and play a remarkable part in the trade and feeding of critical areas. . .
>
> Prior to [World War II], extensive trade in cured fish took place from Thailand and Indochina to Singapore, some of which was re-exported to Indonesia. This trade moving through the focal center of Singapore amounted to some 50,000 tons per year, representing about 150,000 metric tons of fresh fish. During the war and immediate postwar years this trade was drastically curtailed.[16]

The nations of Southeast Asia could work together to increase trade in fishery products among themselves, and with nations outside the region. Both lines of activity could be undertaken by expanding the current activities of INFOFISH (an organization providing marketing information and advisory services for fish products in the Asia-Pacific region) in full or possibly by creating some new institutional arrangements. For example, it would be possible to create a regional marketing board which would actively promote sales in different markets. It might also be sensible to promote more barter trade, with a central agency to serve as a clearing house.[17]

It might also be useful to study the tariff and non-tariff barriers to trade in fisheries products among the nations of Southeast Asia with a view to lowering such barriers. The nations might wish to even consider establishing preference schemes among themselves.

Regional trade might be promoted through improved infrastructural support for marketing. Just as several independent production and processing operations could share a common port area, several independent marketing enterprises could share a common market-place. Such marketing arrangements could be set up for wholesaling, retailing, or both.

The major advantage of increasing trade with countries outside the region would be that it would bring more revenue to the region and thus help to promote economic growth. The major advantage of increasing trade within the region would be that it would help to promote regional self reliance, thus ensuring that the fisheries trade would be increasingly responsive to local needs and interests, without being dependent on and subordinated to outside forces.

There would be disadvantages and obstacles, however. While there are some prospects for increasing trade within the region, these are limited because the fisheries of the Southeast Asian countries are similar rather than complementary. The nations are at similar stages of economic development, and they export the same types of fishery products. Thus, there may be little interest in promoting trade within the region. There may be a decided reluctance to co-operate in promoting trade with nations outside the region because the Southeast Asian nations may — at least in some cases — see themselves as competing in the same markets.

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Assessment

Co-operative ventures can work only if each of the parties sees itself as better off by participating than by not participating. Thus, analysis must show why it would be better for each nation to undertake the contemplated course of action together with others rather than acting alone. There may be only few circumstances in which joint activity can produce total benefits greater than the simple sum of benefits produced by individual activity. In economic terms, the major bases of co-operation are 1) to *increase efficiency*, associated with economies of scale or complementarities; 2) to increase economic rent through *increased bargaining power* in relation to outsiders; or 3) to *open new opportunities* to exploit resources which would otherwise be inaccessible. At least one of these conditions should be present if co-operative efforts are to prove viable.

Increasing economic efficiency through economies of scale would be illustrated by several nations pooling their export shipments in order to get cheaper shipping rates. Nations could take advantage of complementarities in their resources if, for example, one nation sent its surplus fishing vessels to work for another nation's underutilized fisheries resources.

Increasing efficiency may be used to refer to virtually any sort of co-operation which does not depend on drawing increasing benefits from outside, but is based on improving relationships among those who are co-operating. Gains may not be only economic, but also in other forms, such as improved security or increasing solidarity among nations.

To get a sense of what might ideally be achieved by increased economic efficiency, one might consider what the result would be if all of the fisheries of the region were operated under a single management agency, with no consideration for political differences, with all competition eliminated, and with no consideration of any developmental values other than profit-making. The total profit made would likely be at least double what it is now. But of course this would not necessarily be the ideal situation. There are many values other than the maximization of profits which should be taken into account.

Increasing bargaining power is illustrated by the Pacific Island territories banding together to press for higher fees from distant-water-fishing nations seeking access to their waters. However, co-operation can draw great benefits from many different kinds of relationships with those outside the region. Increased gains may be obtained from trade, access arrangements, joint ventures, technology transfer or other sorts of transactions with nations or possibly international organizations outside the co-operating group. These relationships may be purely commercial transactions, or they may involve grants, loans, information, or training programmes from national or international development agencies.

The *opening of new opportunities* may be illustrated by cases in which nations co-operate in resource assessment research, or in which they agree to work together in areas of unresolved jurisdiction because neither feels it can exploit the

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area unilaterally. Rather than allow stocks in such areas to remain unexploited, nations may be willing to create co-operative ventures in order to draw some benefit from the stock.

One major argument for regional co-operation among developing countries is that in the context of the global struggle for a New International Economic Order, increasing collective self-reliance constitutes a major means by which that desired new order can be achieved:

> Greater economic and technical cooperation among developing countries appears to be, in spite of its many problems and obstacles, one of the most dynamic and promising instruments for the attainment of the developing countries' development goals and their inclusion as equal partners in the world economy and in international relations generally.[18]

However, this long-term objective is not sufficient to motivate collaboration in the short term, and it does not provide guidance for the evaluation of different proposed schemes for co-operation. The fundamental rationale for co-operative relationships among nations is that such arrangements should yield specific benefits to them in terms of their own national interests as they see them.

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DOCUMENTATION

Indonesia: Draft State Budget (1984/85)

Jakarta, 9 January (ANTARA): President Soeharto on Monday presented the Government's Financial Note and the 1984/85 Draft State Budget at an open plenary House session. The budget totals Rp20,560.4 billion (US$1 = Rp1,000) — up by 24.1 per cent against the 1983/84 budget of Rp16,565.4 billion.

The 1984/85 draft state budget calls for a 15 per cent increase in the net salary of civil servants. Subsidy for food is abolished.

Domestic revenues stand at Rp16,149.4 billion (up by 16.8 per cent against that of the last fiscal year) and development revenues at Rp4,411.0 billion (up by 60.9 per cent).

Routine expenditures stand at Rp10,101.1 billion (up by 38.8 per cent) and development expenditures at Rp10,458.3 billion (up 12.6 per cent).

The President said four sectors each enjoyed a budget of more than Rp1 trillion.

The sector of education, younger generation, national culture and the belief in God Almighty enjoys a budget of Rp1,501.9 billion.

The sector of agriculture and irrigation has a budget of Rp1,401.7 billion.

The sector of communications and tourism gets Rp1,392 billion.

The sector of mines and energy gets Rp1,300.9 billion.

President Soeharto said that expenses for civil servants would come to Rp3.1 trillion, up by 23 per cent against that in the 1983/84 budget.

This is because the government plans to increase the salary and retirement funds of civil servants and armed forces men in a bid to promote their welfare and arrive at a clean and authoritative state apparatus.

Civil servants and retired government workers and armed forces men have had no salary and pension fund increase for the last two years apart from a thirteenth month salary, the Head of State said.

1983/84 STATE BUDGET AND
1984/85 DRAFT STATE BUDGET
(In billion rupiahs)

Revenues	*1983/84 State Budget*	*1984/85 Draft State Budget*	*+ / − %*
A. Domestic Revenues	13,823.6	16,149.4	16.8
I. Natural Oil and gas revenues	8,869.1	10,366.6	16.9
— Crude	(7,902.6)	(8,895.1)	(12.6)
— LNG	(966.5)	(1,471.5)	(52.3)
II. Non-oil revenues	4,954.5	5,782.8	16.7

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Revenues	*1983/84 State Budget*	*1984/85 Draft State Budget*	*+ / – %*
1. Income Tax) 2. Corporate Tax)Income 3. MPO)Tax 4. Tax on Interest,) Dividend, Royalty)	2,018.8	2,451.1	21.4
5. Sales Tax)Added Value 6. Import Sales Tax)Tax on Goods)and Services)and Sales Tax on)Luxury Goods	786.0	958.2	21.9
7. Import Duty	678.0	681.4	0.5
8. Excise	687.9	727.5	5.8
9. Export Tax	88.1	123.6	40.3
10. Other Taxes	63.4	75.4	18.9
11. IPEDA (regional development contribution)	130.3	150.6	15.6
12. Non-Tax Revenue	502.0	615.0	22.5
B. Development Revenues	2,741.8	4,411.0	60.9
I. Programme Aid	5.0	39.5	690.0
II. Project Aid	2,736.8	4,371.5	59.7
Total	16,565.4	20,560.4	24.1

Government Savings: 1983/84 State Budget Rp6,548.5 billion
1984/85 Draft State Budget Rp6,048.3 billion.

1983/84 STATE BUDGET AND
1984/85 DRAFT STATE BUDGET
(In billion rupiahs)

Expenditures	*1983/84 State Budget*	*1984/85 Draft State Budget*	*+ / – %*
A. Routine	7,275.1	10,101.1	38.8
I. Personnel	2,597.5	3,189.5	22.8
1. Rice Allowance	344.0	415.7	20.8
2. Salary/Wages/Retirement Fund	1,834.5	2,307.9	25.8
3. Meal Allowance	271.3	286.6	5.6
4. Expenses, Domestic Personnel	93.4	99.9	7.0

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Expenditures	*1983/84 State Budget*	*1984/85 Draft State Budget*	*+ / – %*
5. Expenses, Foreign Personnel	54.3	79.4	46.2
II. Goods	1,148.9	1,263.9	10.0
1. Domestic Goods	1,098.8	1,207.8	9.9
2. Foreign Goods	50.1	56.1	12.0
III. Autonomous Region Subsidy	1,388.4	1,784.6	28.5
1. Irian Jaya	43.2	48.2	11.6
2. Other Regions	1,345.2	1,736.4	29.1
IV. Interest/Debt Instalment	1,416.8	2,636.1	89.6
1. Domestic Debts	30.0	30.0	–
2. Foreign Debts	1,386.8	2,656.1	91.5
V. Other Routine Expenditures	723.5	1,177.0	62.7
1. BBM (fuel oil) Subsidy	698.5	1,147.0	64.2
2. Others	25.0	30.0	20.0
B. Development	9,290.3	10,459.3	12.6
I. Rupiah Financing	6,553.5	6,087.8	– 7.1
1. Ministries/Institutions	3,293.6	3,129.8	– 6.0
2. Security and Defence	401.2	380.2	– 6.2
3. IPEDA (regional development contribution	130.3	150.6	16.6
4. INPRES projects	1,407.4	1,357.4	– 3.6
5. East Timor	8.5	8.5	–
6. Fertilizer Subsidy	457.5	458.7	0.3
7. PMP (Pancasila Moral Education)	498.0	359.6	-27.8
8. Others	357.0	243.0	-31.9
II. Project Aid	2,736.8	4,371.5	59.7
Total	16,565.4	20,560.4	24.1

MORE TEACHERS

The President said that the subsidy for autonomous regions in 1984/85 would amount to Rp1.7 trillion. This calls for an increase in the number of INPRES primary school teachers, paramedics and regional administration officials.

Similarly, the salary and retirement funds of civil servants and armed forces men in autonomous regions can be raised, according to the Head of State.

In fiscal 1984/85 government food subsidy is abolished because Indonesians are deemed strong enough to meet the demands for food themselves.

The President said that subsidy for BBM (fuel oil) would come to Rp1,147 billion — up by 64.2 per cent against that in 1983/84 which stood at Rp698.5 billion.

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This is not enough to meet the cost for the nation's fuel oil production, so that the price of BBM will have to be re-adjusted. If not, the subsidy will soar to Rp2.7 trillion.

If the BBM subsidy is not reduced, government savings will go down sharply and development expenditures will come to only around Rp8.8 trillion instead of the projected Rp10.4 trillion. This cannot be because the total of development expenditures in the 1983/84 budget stood at Rp9.2 trillion.

If development expenditures go down, new projects cannot materialize and many now under construction will have to be delayed.

As some development projects now being implemented are partly funded by foreign loans, Indonesia may find it difficult to get funds from abroad in the future if the projects were to be rephased.

The government, as such, is determined to carry on development by way of reducing routine expenditures to the maximum, the President said.

ECONOMIC GROWTH

The President said that Indonesia's economic growth during Repelita IV, which begins on 1 April 1985, was set at an average of five per cent per annum. This calls for concerted efforts on the part of all Indonesians.

With an average five per cent growth per annum Indonesia's economic structure at the end of Pelita IV (March 1989) is expected to be more balanced. For this reason, growth in the industrial sector should reach an average of 9.5 per cent a year. This means that industrial growth proceeds at a faster pace than that of the economy which goes at an average three per cent a year.

The sector of services, such as construction, transportation, communications is expected to grow at an average five per cent a year while the sector of mining, at an average of about 2.4 per cent a year.

If the population growth rate could be made to an average of two per cent a year, per capita national production in real terms will go up by an average three per cent a year. "This means that by the end of Pelita IV Indonesia's national capacity will have been boosted", the President said.

In an effort to enhance the prosperity of the people, the government will continue reducing the current birth rate and mortality rate. Life expectancy can consequently be prolonged.

EDUCATION OPPORTUNITIES

In Pelita IV the government expects 26 million school age children between the ages of seven and twelve to be enrolled.

The government hopes that 78 per cent, or 2.7 million of 3.5 million children, having graduated from primary schools can further their studies at junior high schools.

More than 84 per cent of those having graduated from junior high schools are expected to be able to continue their studies at senior high schools.

Commenting on the work-force, the Head of State said that in 1983 there were 63.5 million of them. Part of the number were jobless. In Pelita IV the total labour force will increase by more than nine million people.

If the economic growth in Pelita IV could proceed at an average of five per cent a year

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and investment could cover labour-intensive projects, an additional nine million people could expect to get employment.

It is imperative, therefore, that investments in Pelita IV could be put to use to increase the number of employment opportunities.

All this, the President said, calls for the increased use of home products and services. The government and all companies — state or private — must bear this in mind, he added.

MORE SCHOOLS

In the first year of Pelita IV there is need for only an additional 2,200 primary school buildings, particularly in isolated areas.

The government plans to add the number of classrooms by 12,500 and to repair 28,500 primary school buildings.

The government will build 60,000 houses for school principals and teachers, particularly in out-of-the-way areas.

In the sector of agriculture, 7.7 million hectares of fields of various crops will be subjected to intensification. New rice fields will embrace a plot of 75,000 hectares.

The budget for agriculture and irrigation is also to promote the quality and increase the production of estate commodities, animal husbandry, fishery and second crop products.

The President reminded Indonesians that the current world economic recession was still present. There are signs of recovery in a number of industrial countries but complete recovery will take some time.

"We must follow the latest developments in the world economy with the utmost care, notably since the world economic structure has not yet improved", he said.

He called on Indonesians to co-operate with the government to increase non-oil revenues.

By stepping up national productivity and discipline, Indonesia expects to increase domestic revenues from 79 per cent at the beginning of Pelita IV to 82 per cent of the total state revenues in the last year of Pelita IV.

The President in his address did not touch on international as well as regional questions but concentrated on problems related to the implementation of Pelita IV.

INVESTMENT AIMED AT ENHANCING NATIONAL PRODUCTION CAPACITY

President Soeharto has pointed out that capital investment, domestic as well as foreign, is aimed at enhancing and extending the national production capacity as well as at creating equity, improving foreign exchange earnings and work opportunities.

This was stated by President Soeharto in the Financial Note when he submitted the 1984/85 Draft State Budget to the plenary session of Parliament at Senayan on Monday.

These capital investment activities should in the first place utilize the available domestic sources to the maximum. For activities in certain sectors given priority by the government, foreign sources could be utilized to achieve the best possible results in the national development.

The policy which had been taken by the government in advancing capital investment activities consisted, among other things, of the setting up and perfecting of the DSPs (Priority Scale Lists) which were always adjusted to the development stages, in harmony with regional development and potentials.

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In addition, rephasing had been carried out of projects which were of strategic and decisive importance for the success of certain development programmes.

Capital investment promotion activities were enhanced and aimed directly at domestic as well as foreign would-be investors.

In this connection, the BKPM (Capital Investment Co-ordinating Board) had opened three representative offices in New York, Paris and Frankfurt to facilitate capital investment information in the United States and Europe.

In the framework of import substitution and the enhancement of agricultural commodity export, investment in the agro-industrial sector will be further developed.

This will be continued because the agro-industry has very high strategical value, among other things, through employment of sufficient numbers of workers.

"Agricultural commodities with great potential are, among others, sugar, palm-oil, hybrid coconut, rubber, cotton, cassava, rice, maize, peanut and soy-bean", President Soeharto said.

Favourable Investment Climate

Domestic investment activities have shown a satisfactory development. Until July 1983 the government had given many permits for new investment projects as well as project extensions, as a sign of the existence of a favourable and beneficial investment climate.

In addition, many foreign investment projects had changed into domestic ones, which in general was due to improving capabilities of the Indonesian side in the capital, management and technological fields.

Development until July 1983 showed that the projected capital investment had reached Rp14,436,200 million, covering 3,944 projects spread in various regions, while the realization until March 1983 had reached Rp5,025,800 million, or 34.8 per cent of the projected investment.

The industrial sector which from year to year was the most attractive for investors, took until July 1983 still the number one position.

The projected value in the industrial sector was Rp9,268,400 million covering 2,779 projects, while Rp3,285,500 million had been realized, or 35 per cent of the projected investment.

The greatest activities in the industrial sector in 1983 were in the chemical industry, mineral, non-metal, and metal goods industries.

In the framework of speeding up development, foreign capital investment is a replenishment in capital investment activities. "Foreign investment should be directed to fill investment fields which could still not be carried out by the national private sector", President Soeharto said.

Until 1983, the government had given permits to 788 foreign investment projects with an investment value of US$13,276.5 million, spread throughout various regions.

In the foreign investment sector, the industrial sector was also the main target of foreign investment activities.

Japan took first place as investor in Indonesia. Foreign investment from Japan until July 1983, which had been agreed by the government, covered 209 projects with a value of US$4,401 million.

Hongkong followed in second place with 125 projects worth US$1,221.2 million,

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Belgium with 16 projects worth US$926.5 million, the United States with 67 projects worth US$917.1 million, and the Netherlands with 41 projects worth US$509.4 million.

CIVIL SERVANTS' NEW SALARY WILL BE PAID NEXT APRIL

Finance Minister Radius Prawiro has disclosed that the 15 per cent raise in the civil servants' salary will take effect next April.

The Finance Minister made this statement to reporters after attending Parliament's plenary session to hear the government's statement on the 1984/85 Draft State Budget by President Soeharto at Parliament building at Senayan here on Monday.

The Minister pointed out that the 15 per cent raise was not from the basic salary, but from the next monthly income/"take home" pay.

The 15 per cent raise which will take effect next April, is for all civil servants. "If differences are made in the percentage of the raise, it will jeopardize the salary system", Minister Radius Prawiro said. And the 15 per cent raise of the nett income is more favourable for all parties concerned, he added.

On the possibility of price increase due to the civil servants' salary raise, the Minister said that based on last December's consumer price index, the index quotations, it was below one per cent.

On the possibility of fuel-oil price adjustments, the Minister said that previous years' experiences had shown that fuel-oil price increases had no big influence on commodity prices due to the stable economic situation.

GOVERNMENT POLICY ON SEA COMMUNICATIONS IN PELITA IV

President Soeharto has said that in the first year of the Pelita IV development period, the government policy on sea communications will be directed to increasing such facilities while maintaining co-operatives and promoting smallholders' shipping.

The Pelita IV development programme will be started as of April this year.

The pioneer shippings will be handled by the government while transmigrational transportation will be conducted by both the government and private circles.

This was stated by President Soeharto when conveying the 1984/85 Financial Note and Draft State Budget before the Parliament (DPR) here on Monday.

President Soeharto pointed out that in the outgoing Pelita III, the sea communications development showed promising results in the form of the increasing number of fleets, ports, navigational safety facilities and submarine works.

The Head of State also said the rejuvenation and development of inter-insular fleets had also been conducted in an effort to meet the nation's increasing demand for shipping facilities.

In the 1981/82 period, there were a total of 6.7 million ton cargoes carried by 361 units of inter-insular fleets with the capacity of 425,428 DWT, President Soeharto said.

In 1982/83, the cargoes increased to 7.4 million tons which were carried by a total of 391 ships with the capacity of 503,375 DWT which meant a respective increase of 9 and 18 per cent in the unit total and capacity of the inter-insular fleets as compared to that of the previous year.

Referring to the ocean-going shipping, in 1981/82 Indonesia still had only 61 ships

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with the capacity of 801 DWT to carry a total of 5.3 million tons of national and 12.3 million tons of foreign cargoes.

Air Communications

Speaking about the air communications, President Soeharto said the government policy in the Pelita IV would be geared to promoting an attractive tariff system and increasing the pioneer flights to remote areas.

Other programmes to be carried out by the government will be the procurement of facilities for the traffic of passengers, goods, cattle, plants, and air mail.

Efforts will be made to enable people to buy only a single ticket for a certain place of destination although they have to make several transits, President Soeharto said.

In the Pelita III, there were 19 airports which already had their master plans, seven of which had already their detailed technical plans.

The ports which have their own master plans are Medan, Pekanbaru, Batam Island, Semarang, Surabaya, Yogyakarta, Denpasar, Banjarmasin, Balikpapan, Ujungpandang, Manado, Ambon, Sorong, Biak, Jayapura, Pontianak, Padang and Jakarta.

The airports which already have their own detailed technical plans are Medan, Palembang, Pontianak, Balikpapan, Jayapura, Batam Island and Jakarta.

Land Communications

Elaborating about the land communications, President Soeharto said the land communications development in 1982 was marked by the increase in the number of land communications fleets from 1.3 million units to 1.5 million units in 1981 to 1.5 points of vehicles in 1982.

In the same period, results of the ferry vehicle development recorded an increase of 0.9 per cent while the private and commercial vehicles made an increase of 6.1 per cent.

The development of railway communications in the same period recorded an increase of 3.4 per cent for the passengers whereas the cargoes recorded a decrease of one per cent when compared to that of 1981.

In a bid to cope with the city transportation problem, the government in 1982 distributed buses and double deckers to some cities throughout the country.

The cities of Surabaya received 30 double-deckers and 178 buses, Medan 25 double-deckers and 71 buses, Semarang 10 double-deckers and 118 buses, Solo 10 double-deckers, Tanjung Karang 24 buses, Bandung 128 buses, and Ujungpandang 10 double-deckers, President Soeharto said.

INDONESIA'S 1984/85 BALANCE OF PAYMENT PREDICTED TO HAVE SURPLUS

Indonesia's 1984/85 balance of payment was predicted to reach a surplus of US$193 million, a drop compared with the 1983/84 fiscal year, thought to have a surplus of US$1,711 million.

The Government's Financial Note and the 1984/85 Draft State Budget presented by President Soeharto before an open plenary House session on Monday said the 1984/85 balance of payment surplus would be obtained because exports had been estimated to reach US$19,525 million and imports US$19,172 million.

While the surplus was estimated to stand at US$353 million, on account of the spending for the payment of oil and non-oil services which reached US$5,289 million, Indonesia's

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1984/85 current transactions suffered a deficit of US$4,936 million.

Thanks to government capital income amounting to US$5,626 million both in the form of programme aid and project aid as well as other such assistance, in addition to other capital income amounting to US$800 million, the country's balance of payment reached a surplus of US$193 million.

It was stated that the 1984/85 non-oil exports might reach US$4,750 million.

The increase in value of non-oil exports was caused among other things by the improvement in the world economic conditions, so that demand for Indonesia's export commodities was estimated to go up, coupled with an increase in the prices of the export commodities concerned.

The increase was also the result of the further development of the markets of non-oil export commodities in the Middle East, Europe and Africa, and the more effective handling of export activities by the government starting from production right up to overseas marketing.

Furthermore, the increase was the result of the successful efforts at improving the quality and standards of non-oil export commodities.

On the other hand, it was also predicted that Indonesia's 1984/85 oil exports would drop slightly to US$13,825 million, as against US$14,322 million in 1983/84.

In this way, the state's income from the non-oil and LNG sector in 1984/85 would also drop to US$6,754 million as against US$7,005 million of the previous fiscal year.

Non-oil Imports

In the non-oil import sector, the foreign currency to be used in the 1984/85 fiscal year was predicted to increase from US$266 million to US$14,666 million, as against US$14,400 million in the previous budget year.

The increase of the value of imports was particularly due to the policy on foreign exchange rates which preserved the country's foreign trade balance, and the fact that the import of raw materials and capital goods was still needed for maintaining stable prices of daily necessities and for meeting domestic industrial requirements.

The increase was also the result of the more efficient use of foreign currency by giving priority to domestic products, and the maintenance of imports within the framework of project and programme aid.

For boosting exports, especially non-oil commodity exports, the government had issued two export-boosting guidelines, covering improvement of export procedures, payment system in international trade, and reduction in export credit interest rate, and the counter-purchase system.

As follow-up, the government has taken improvement measures such as increasing the competitiveness of various agricultural produce on the international market by their inclusion in the list of perishable export items, in this way enjoying some relief in export credit.

In addition, the government has reduced the export tax on a number of agricultural export commodities, while the government retained the export certificate facility for industrial products now covering 1,700 different items.

Under this facility, an industrial enterprise that had exported its products may retrieve part of the import duties it had paid for the raw materials.

The government had also abolished the industrial development costs as from 1

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August 1983, for the export of industrial finished goods.

Under the counter-purchase system, the contracts that had been concluded with 18 countries up to and including November 1983 reached US$741.8 million, covering US$224.8 million worth of Indonesia's export goods.

The items exported under the counter-purchase arrangement included plywood, garments, fresh shrimp, natural rubber, coffee, rice bran, black pepper, nickel ore, and tin.

The government had also drawn up various strategies for the marketing of exported goods through a commodity and business unit approach.

The strategy was aimed at the long-term boosting of non-oil exports.

This facility was introduced by the granting of facilities to the exporter or for the export commodity concerned provided it had a potential and was included in the priority list, namely those which may earn foreign exchange revenues over US$10 million.

Besides, the commodity concerned must have a growth rate of four per cent per annum, was not subjected to restrictions abroad and did not cause a decrease in supply for domestic consumption.

These included natural rubber, timber, palm oil, copra, tea, plywood and sawn timber. With a view to boosting trade among ASEAN member countries, there are 30,906 different commodities enjoying special tariffs, including 19,083 kinds from Indonesia.

REDUCTION OF PETROLEUM FUEL PRICE SUBSIDIES ONLY CHOICE TO ENABLE CONTINUATION OF DEVELOPMENT — PRESIDENT

Under Indonesia's state budget for 1984/85 the government will set aside a total sum of Rp1.14 trillion (about US$1.4 billion) for domestic petroleum fuel subsidies, President Soeharto announced in Parliament on Monday.

The figure represents an increase of 64.2 per cent over the amount of subsidies appropriated under the current state budget (1983/84), namely, Rp698.5 billion.

But the President also said if no "adjustments" were made in the domestic sales price of petroleum fuels, the amount of subsidies the government would have to provide in the 1984/85 budget year would swell to Rp2.7 trillion (US$2.7 billion).

In the past, domestic petroleum fuel price "adjustments" usually meant a hike in the prices charged to consumers.

Presenting a Government Statement on the Draft State Budget for 1984/85 in the House on Monday morning, the President said the costs of providing petroleum fuels for domestic consumption during the coming budget year would undergo "substantial" increase compared with the current budget year (1983/84). This would be caused by a sharply reduced availability of "pro-rata" crude oil as a consequence of the recent change from "contract of work" to "production-sharing" terms of the activities of Caltex which account for 600,000 to 700,000 barrels of Indonesia's total crude production of 1.3 million barrels per day. (Pro-rata crude is that portion of the crude output of foreign oil contractors operating in Indonesia which, under the relevant contracts, has to be sold to Pertamina at a very concessional price for processing into fuels for domestic consumption).

The change in Caltex's contract terms would cut the volume of pro-rata crude accruing to Pertamina from 52.8 million barrels in 1983/84 to only 25.1 million barrels in 1984/85, the President reported.

The sharp reduction would lead to a proportionate increase in Indonesia's need for

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"in-kind" crude (crude available at free market prices), namely from 130 million barrels in the current budget year to 164.1 million barrels in 1984/85, the President said.

Only Choice Left

In a statement which generally stressed a need for continued observance of economization and belt-tightening in state expenditures, the President said that reducing subsidies for domestic petroleum fuel prices was "the only choice we have if we wish to continue development".

Other routine expenditures such as civil servants' salaries and pensions, purchases of goods, subsidies to autonomous administrative regions, foreign debt-servicing had already been cut to their barest minimum, he said.

If government subsidies to petroleum fuels were allowed to reach Rp2.7 trillion, government savings would be drastically cut and development expenditures would have to be scaled down to Rp8.8 trillion (from Rp10.4 trillion actually proposed in the 1984/85 Draft State Budget). Such a reduction in development expenditures would have "very far-reaching consequences, such as inability to undertake new projects and stagnation of many ongoing projects, shortage of rupiah funds to complement foreign-assisted projects, and difficulty in obtaining foreign funds in the future, President Soeharto said.

Referring to the domestic petroleum fuel need in 1984/85, the President said that total demand was estimated to reach 27 billion litres or 8.5 per cent higher than the current budget year's figure.

To meet the next budget year's demand, some 222.8 million barrels of crude oil would be needed and of this volume 189.2 million barrels would be crude produced in Indonesia itself, and nearly 33.6 million barrels would have to be imported. The imported crude was needed to feed the old Cilacap refinery.

Effect of Change in Caltex Contract

Explaining the effect of the change in pro-rate oil availability, the President said that under contract of work terms, 25 per cent of the entire crude production had to be made available as pro-rata oil for processing into petroleum fuels for domestic consumption. But under a production-sharing contract, the pro-rata portion was 25 per cent of the foreign contractor's share in the entire production which, except in Caltex's case, is 15 per cent. Under a recently concluded production-sharing contract with Caltex which replaced a contract-of-work on oil development, it was fixed at 12 per cent. This meant the pro-rata portion to be set aside for domestic consumption from the contract with Caltex would be 25 per cent of 12 per cent or just 3 per cent of the Riau contract area's total output.

Since Caltex is the biggest individual producer among all oil companies active in Indonesia, the sharp reduction in the pro-rata oil to be available from Caltex would likewise have a great effect on the total volume of pro-rata crude available.

SOURCE: Extracted from *Financial and Economic News* of ANTARA News Agency, 10 January 1984 (courtesy of the Information, Press and Cultural Section, Embassy of the Republic of Indonesia, Singapore).

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BOOK REVIEW

New Foundations for Asian and Pacific Security. Edited by Joyce E. Larson. New York: National Strategy Information Center Inc., 1980. Pp. 255.

In the Preface to the book, the editor stated that "For the purposes of the Pattaya meetings, it was determined that the countries invited should share certain common foundations and outlooks, as reflected in their non-communist political and economic systems, general friendliness toward one another, and demonstrated commitment to cooperative regional endeavors" (p. ix). The main organizer of the conference was the National Strategy Information Center, a conservative research organization in the United States. Sixteen addresses and conference papers were presented, and all with the exception of two — those by Lim Joo-Jock and Munir Majid — were given by ministers, senior officials, and former officials of governments. Hence, the meeting had the appearance of being a political conference.

The book is a compilation of the sixteen papers and committee reports. Additional background papers have also been included and these were written by the editor, Joyce E. Larson, who was the managing editor of the Center, and Dr Frank N. Trager, the Director of Studies at the Center and Professor of International Relations at New York University. In general, the book is not a scholarly or academic piece of work: it cannot pretend to provide an in-depth, comprehensive and balanced analysis of the security issues of the Asian and Pacific region. What the book can offer are the reflections of officials and former officials of the governments of some Asian and Pacific countries on the security situation in the region.

The conference participants met against the background of two major developments: firstly, a shifting balance of power in the Asian and Pacific region, and secondly, a conflict among the communist powers over the future of the Indochina subregion. The power situation had shifted from one which was dominated by the United States towards one which was evenly balanced between the two superpowers. The United States, after its defeat in the Vietnam war, withdrew from mainland Southeast Asia, but it remained committed to the defence of its remaining allies in the Asian and Pacific region. The U.S. Seventh Fleet continued to sail in the waters of the Pacific Ocean and the South China Sea and the United States maintained its military bases in Japan, South Korea, Taiwan, and the Philippines. The Soviet Union, however, had increased its military presence in the region and had advanced into the northern islands of Japan and mainland Southeast Asia. The Soviet Far East Fleet had made its presence felt throughout the Pacific Ocean and the South China Sea, including the Gulf of Thailand, and the Soviet Union had acquired the use of military facilities in Vietnam. The Soviet military presence had the effect of undermining U.S. dominance and achieving a balance of forces in the Asian and Pacific region.

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In Indochina, a regional conflict had become intertwined with the hostility between the two major communist powers, and the subregion had been polarized with the Soviet Union, Vietnam, Laos and the Heng Samrin regime on one side, and China with the Democratic Kampuchean government on the other. Vietnam's ambition to dominate its neighbours, Laos and Kampuchea, had led the Hanoi leadership to embark on a course of action which they had fought against during their historic struggle for independence — the course of intervention, aggression, and occupation. Would Vietnam suffer the same fate as other imperialist and occupying powers? China decided to exert its power and invaded Vietnam but withdrew with the threat that it might teach the Vietnamese another lesson. The lesson was meant for Vietnam, but other Southeast Asian states took note of its implications.

The shifting strategic balance and the Indochina conflict were developments which would affect the stability and security of the states in the Asian and Pacific region for many years to come. What were the perceptions of Asian leaders regarding the threats to their security? How did they respond to these developments and why did they act the way they did? What initiatives or new measures did they suggest to strengthen their defences against the perceived threats? The book has provided some answers from officials and former officials to these questions. But for the purpose of this review, I shall deal with the central question: what new foundations for Asian and Pacific security were proposed and discussed by the conference participants?

The Indochina conflict directly affected the stability and security of the ASEAN states. Yet the interesting point which emerged was the sanguine manner and absence of panic which prevailed among the Southeast Asian participants. All seemed to agree that there could not be a return to the U.S. dominated security system, and there was opposition to any new form of collective security arrangement, whether it be formed by Southeast Asian states or among Southeast Asian states and outside powers. "Pactomania" was a thing of the past, best left alone and allowed to fade away eventually.

Both Indonesia and Thailand singled out the Sino-Soviet rivalry as the main source of threat to the stability and security of Southeast Asia, and they felt that the United States could play a useful security role in the region. Lieutenant-General Ali Moertopo, the then Indonesian Minister of Information, stated that, "It is necessary that the U.S. watch very carefully the moves of the Soviet Union in the Asian/Pacific region. At the same time, the U.S. should use its influence with Peking as a rein on the PRC's actions in the area" (p. 23). Dr Upadit Pachariyangkun, the then Thai Foreign Minister expressed the view that "a stronger and more decisive U.S. in the 1980s will be welcomed by the international community" (p. 31). Lieutenant-General Ali Moertopo said that although there were pressures on ASEAN to take sides in the Sino-Soviet rivalry, ASEAN should remain neutral. Dr Upadit's view on ASEAN's role was that it should pursue co-operation among the member states, avoid confrontation with the Indochina states, and eventually seek the establishment of Southeast Asia as a zone of peace, freedom and neutrality. Dr Thanat Khoman, former Thai Foreign Minister, asserted that it was the policy shift of the United States which contributed to the uncertainties in the entire region and he advocated the creation of what he called a "de facto balance of power" to ensure security, one which would be based, "not on a single world policeman, but rather on the stabilizing forces which emerge from the mutually neutralizing balance of opposing forces" (p. 37).

An interesting suggestion came from Dr Upadit when he called for a United Nations

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role in maintaining peace along the Thai-Kampuchean border and providing protection and relief to the Indochinese refugees encamped near that area. In his view, "The U.N. not only should maintain but in fact should intensify its active role, both with respect to monitoring the peace along the Thai-Kampuchean border and channelling effective relief to the masses of suffering Kampucheans in the border area. For these purposes, it may be necessary to establish a permanent U.N. observation unit in the area of the border" (p. 30). This was a positive and feasible proposal, but unfortunately it was not taken up. If it had it would certainly have prevented the Vietnamese incursion into Thai territory in June 1980.

The then Malaysian Minister of Home Affairs, Tan Sri Muhammad Ghazali bin Shafie, dealt with the prospect of an Asian and Pacific community as a means to preserve stability and security in the region. He disagreed with the concept of the Pacific community as envisaged by the United States, Japan, and Australia because the states were motivated by self-interest: the United States trying to continue with its domination, and Japan and Australia to protect their strategic, political and economic interests. He was in favour of an all-embracing organization which would bring together communist and non-communist states in the Asian and Pacific region. He stated, "It is in terms of a creative force — bringing together ideologically, politically, and economically disparate societies — that I prefer to approach the Pacific Basin concept" (p. 198).

Ambassador Melchor, one-time key aide of President Marcos of the Philippines, and Mr Bernard Chen, the then Minister of State for Defence of Singapore, were present at the conference, but their views on the security issues of the Asian and Pacific region were not recorded in the book. If these had been available, they would have provided further contrasts in the views of the ASEAN officials concerning regional security. It was clear that the ASEAN states did not have serious differences of views on the subject, and where such existed they were reflected in the different emphasis regarding the threats from China and the Soviet Union. For example, Indonesia and Malaysia perceived China as the threat to the stability and security of the states in Asia, while Singapore saw the Soviet Union as the expansionist power and as the supporter of the Vietnamese ambitions in Indochina.

As far as the East Asian region was concerned, the officials present seemed more responsive to the security threats posed by the Soviet military presence and the build-up of the North Korean military forces. General Masao Horie (Ret.), Councillor of the Japanese Diet, while recognizing the increased tension in East Asia, felt that there should be no change in the defence policy of the government: that is, a continuing dependence on the United States for its overall defence, and an expansion and modernization of the Japanese Self-Defense Forces. A specific development would be in the expanded role of the Japanese navy. General Masao Horie (Ret.) stated, "Efforts will be made to enhance Japan's ability to protect the three straits choking the Sea of Japan and the sea lanes of communication around the Japanese islands" (p. 99).

Admiral Kenichi Kitamura (Ret.), former Chief of Naval Operations, and Professor Jun Tsunoda of Asyama-Gakuin University went further than General Masao Horie (Ret.) when they asserted that Japan should consider the protection of not only the sea lanes around the Japanese islands but also the sea lanes vital to the trade of the country. They accepted that the United States was no longer the dominant power in the Pacific but, nevertheless, regarded as a 'shockku' the American decision on the 'swing strategy', whereby elements of the U.S. Seventh Fleet could be diverted from the Pacific in the event of crisis in the Indian Ocean and Middle East region. In view of the altered strategic situation and the

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threat to the sea lanes from the Soviet navy, Admiral Kitamura (Ret.) and Professor Tsunoda expressed the opinion that, "the inherent rights of self-defence give Japan the right to protect its sea-borne trade on the high seas, and to co-operate with the U.S. in this endeavor" (p. 118). Implicit in this was the attitude that Japan should assume responsibility for the protection of sea lanes vital to Japan's trade, including the Straits of Malacca.

From South Korea, Ambassador Hogan Yoon, then Consul General of the Republic of Korea in New York, stressed Soviet expansionism and North Korean military build-up as the destabilizing factors in Northeast Asia. Towards meeting these threats, he stated, "It will be desirable for the ROK, the U.S., and possibly Japan to work toward the formation of a regional security arrangement for Northeast Asia, while maintaining mutually beneficial economic and trade relations" (p. 127). South Korea, therefore, appeared to be the only country that would be prepared to consider a security framework based on multilateral alliances.

In any discussion of Asian and Pacific security problems, the role of the U.S. occupies a central place. Clearly, all the Asian leaders at the conference did not want a return to the Cold-War, U.S. dominated security system. What they seemed to accept was the presence of the United States at current or even increased levels for the purpose of maintaining stability and security by balancing the Soviet military presence. Except for the representative from South Korea, no other Asian participant called for any new security arrangement with the United States. It was noteworthy, therefore, to read the suggestion of Dr Frank Trager that, "The U.S. should aim to reinvigorate the existing defense treaties with its remaining Asian and Pacific Basin allies (that is, with the Republic of Korea, Japan, the Philippines, Thailand, Australia, and New Zealand)" (p. xxviii). He stated that the United States should not revive SEATO. However, the American official at the conference, Dr Douglas Pike of the Defense Department played down the security role of the United States and instead indicated that it would prefer a political and diplomatic solution to the issues of peace and security. He stated, "It seems quite probable that as the United States moves deeper into the 1980s it will increasingly be guided — partly by design and partly in reaction to the rush of chaotic events — by a single overarching principle: the desire to see established in Asia a condition of socio-political, economic, and military equilibrium within the framework (that is, within the organizational structure) of some new type of international system" (pp. 234–235). His suggestion which he called, "Asian equilibrium through Asian regionalism" would imply the absence of intervention by the external major powers, namely, the United States and the Soviet Union, which had been the bane of the stability and security in the Asian and Pacific region.

The book has provided certain views of Asian leaders concerning the problem of Asian and Pacific security. However, there was little, if any, elaboration, explanation, or comments on those views expressed at the conference. I felt a sense of an opportunity lost, considering the fact that the organizers were able to have such a distinguished gathering of Asian ministers, officials and former officials and yet did not record the exchanges which must have taken place in Pattaya and which would have made the book worthy of consideration as a reference book. As it is, I was disappointed that the participants had little to offer in the way of 'new foundations' concerning the problem of stability and security in the Asian and Pacific region.

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U.S.-ASEAN Relations in the 1980s*

ROBERT C. HORN

To many in Southeast Asia, American policy towards the region had been uncertain and unclear for at least a decade by the late 1970s.[1] This sense of drift in U.S. policy had been commonly perceived as early as the Nixon, or Guam, Doctrine of 1969 which represented a degree of American withdrawal from Asia. The perception of the declining American role in Southeast Asia only seemed strengthened with the further U.S. disengagement from Vietnam in 1973 and then by the debacle of the communist victories in Indochina in early 1975. This series of events left deep scars on the American psyche. Interest in Southeast Asian affairs was discouraged and American policy-makers turned their attention elsewhere. American bases in Thailand were closed, the U.S.-dominated Southeast Asia Treaty Organization was dissolved, and the Carter Administration evidenced an almost total disinterest in the region as a whole. All in all, by 1978, the earlier American role in Southeast Asia had been completely transformed from that of the "upholder of the regional order," as it had been in the 1960s, to "that of a peripheral player".[2]

Although this trend in U.S. policy appeared irreversible, events at the end of the decade created a completely new environment and raised new questions in Washington. Firstly, there was the growing tension between Vietnam and Kampuchea (Cambodia) which finally resulted in a full-scale Vietnamese invasion at the end of 1978. Within a few weeks, the Kampuchean regime of Pol Pot and his Khmer Rouge had been chased out of Phnom Penh and into the jungle, and a Vietnamese-supported regime under Heng Samrin had been installed in power. Secondly, after repeated warnings to Hanoi that it should withdraw — and a visit to the U.S. by Chinese Vice Premier Deng Xiaoping — the Chinese launched an incursion into Vietnam to "teach it a lesson" in early 1979. Thirdly, the regional organization, ASEAN — the Association of Southeast Asian Nations, consisting of Indonesia, Malaysia, the Philippines, Thailand, Singapore and, recently, Brunei — seemed to be coming of age. Founded in 1967, the organization held its first Head of State summit in Bali, Indonesia, in early 1976, adopted a much more explicitly political focus, and then seemed galvanized into action by the events in Indochina. By that time, too, Washington was beginning to express a renewed interest in the ASEAN region in economic terms.[3]

All of these developments combined to provide a new context not only for the Southeast Asian states themselves but also for the United States. To a certain extent, American policy did show signs of a reawakened political interest in the region, particularly a new concern with regional stability and the continued

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independence of the non-communist states. The thesis of this paper, however, is that while relations between the United States and the ASEAN states have become closer since 1978, important ambiguities remain. Relations are basically good between Washington and the ASEAN capitals, and the broad areas of agreement substantially outweigh any areas of disagreement; yet, there are a number of significant differences between the United States and these Southeast Asian states. These differences are vital to the future of U.S.-ASEAN ties and, as will be argued, these differences and ambiguities are likely to persist in much the same vein in the remainder of the 1980s.

This paper will begin by examining what this author deems to be the most salient issue-areas and ambiguities on which contemporary U.S.-ASEAN relations turn now and will continue to depend. These include: 1) the American role in Asia, especially Southeast Asia; 2) the nature of the threat to the Southeast Asian region and how to counter it; 3) mutual attitudes towards the USSR; 4) perceptions of the role of the People's Republic of China (PRC); and 5) economic inter-relationships and policies. The paper will then analyse some of the fundamental factors which help to explain these differences and ambiguities. The conclusion looks ahead to the likely developments in these issue-areas and explanatory factors for the second half of the 1980s.

In the way of disclaimers, it should be pointed out that the study basically deals with U.S. relations with the individual ASEAN states rather than with ASEAN as a political unit itself. Although there are some issues on which ASEAN stands as a single, unified entity, and others on which the degree of agreement is quite high, the assumption here is that the divisions among the six states, including on most of the issues discussed below, are so significant that they must not be submerged; indeed, it is the variety of concerns and perceptions within ASEAN which give substance to many of the ambiguities in relations with the United States. Thailand and Singapore, for example, appear to be far more concerned than the other ASEAN states about the expanding naval presence of the Soviet Union in the Asian region. Indonesia and Malaysia tend to downplay the threat that this represents and the gap between these four states on this issue is substantial. By the same token, Bangkok and Singapore are far more vocal than Jakarta or Kuala Lumpur in calling for an increased and reliable American commitment to counter the growing Soviet capability. The latter two, while not rejecting the need for a U.S. presence altogether, are somewhat more ambivalent, still seeking a reduced superpower naval presence in the interests of some kind of a "zone of peace". On the Kampuchean issue, to take another important example, there is also a broad consensus among the six on the nature of the problem and what needs to be done about it; but here again there are fundamental differences in perception that cannot be made to disappear by the broad range of agreement. Thailand and Singapore are far more concerned with the threat from Vietnam as well as the Soviet menace they see lurking behind it — and manipulating it — than are Indonesia and Malaysia; the latter two are inclined to see the long-term threat to the region and to their own future emanating from China rather than Vietnam. Such differ-

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ences in perspective naturally lead to differing policy prescriptions and to varying expectations of the role the United States should be playing in these and other issues crucial to the region. Despite the attempts by ASEAN to present a "united front" to the outside world, these and other significant differences have emerged. By necessity, then, American policy in Southeast Asia has historically been conducted primarily on the bilateral, or state-to-state level. Whether this has begun to change or should change and to what extent ASEAN has become or might become a "sovereign" unit are justified questions, but they are left to other studies.[4]

Finally, it should be pointed out that much of the analysis in this paper is based on interviews and discussions with various Southeast Asians, Americans, and others while the author was resident in Malaysia and travelling in the region in 1983–84. Other aspects are based on a "sense" or an impression of points of view which are carefully left implied rather than explicit. It is very much a study of perceptions, particularly Southeast Asian perceptions of the United States, but also American images of and attitudes toward the states and governments of ASEAN.

The U.S. Role in Asia

From the perspective of Southeast Asian governing élites, the U.S. role in Asia and the Pacific remains largely unclear. Despite the renewed American interest in the area in general, and Southeast Asia more specifically, there is a pervasive unease among the ASEAN states as to the long-term nature of Washington's commitment. There is, moreover, a suspicion that the United States itself does not have a clear conception of its role, interests, and policies. The American de-emphasis on the region, particularly since 1973, is not perceived as having been unalterably reversed by the new interest since 1978. U.S. goals and objectives in the region do not appear to be well defined. American behaviour is far from predictable and its credibility is thus in doubt. How reliable is Washington as a defender of the ASEAN region against outside powers, or "inside" ones such as Vietnam? In general, the states of ASEAN look for a clearly expressed and explicit American commitment to the region.

There are, however, certain inescapable ambiguities in this ASEAN desire for a more explicitly stated commitment on the part of the United States to Southeast Asia. For example, while there is a general desire for a greater American involvement to offset the Soviet Union and Vietnam, and perhaps China in the longer term, there is also a general desire in the region for the establishment of a "zone of peace, freedom, and neutrality (ZOPFAN)" in Southeast Asia. ZOPFAN, which was put forward in 1971 and adopted by ASEAN, implies, to most Southeast Asians at least, a minimum, if not the absence, of great power involvement. Beyond that, there is a wariness towards what appears to be a greater American interest in the region since the Vietnamese invasion of Kampuchea and, particularly, towards changes in U.S. foreign policy which have been introduced by the Reagan Administration. That is, on the one hand, Southeast Asians generally look with favour on the greater interest in the region which the new

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administration has enunciated and also on its greater commitments to the enhancement and maintenance of American military strength. On the other hand, however, there are persistent questions as to the motivations behind these American postures. How is American policy being defined? Are these changes which are relevant to the region simply based on a narrow anti-communist focus? Are these perhaps the right policies, but adopted for somewhat the wrong reasons? The point is that the political leaderships in these countries have no desire to be pawns in an American crusade against the USSR or Vietnam. They are not comfortable with a "balance of power" in which the United States, ASEAN and China are rigidly aligned against the USSR-SRV "camp."

One example of the ambiguous Southeast Asian perspective on what is perceived as an ambiguous American foreign policy in the region can be seen in President Reagan's visit to East Asia in November 1983. There was broad approval of the visit — one analyst in Malaysia's *New Straits Times* wrote that the visit "shows a commitment to Asia's defence"[5] — and general discouragement when the Southeast Asian part of the itinerary (to include the Philippines, Indonesia and Thailand) was dropped in the wake of the Aquino assassination in Manila. Yet, there was also concern that the visit would serve to harden the already rigid divisions among the states in the region. In Indonesia, for instance, the President's cancellation of the visit received a mixed reaction: top defence officials, who favoured closer U.S. ties, were discouraged, while others, perhaps including Foreign Ministry officials who sought to maintain some balance in Indonesia's alignment among the superpowers, were relieved. This latter group had tried — unsuccessfully — to secure an invitation for Jakarta's Foreign Minister, Mochtar Kusumaatmadja, to visit Moscow prior to Reagan's visit as a way of showing Indonesia's support for East-West balance. In any case, Mochtar was consistent in stressing, prior to the American President's planned visit, that talks would centre not on political and military issues but rather on bilateral economic relations.[6]

Perception and Response to Threat

A corollary to these ambiguities surrounding the U.S. role in Asia is the difference in American and ASEAN perceptions of the threat regionally and, consequently, the kind of response that ought to be made to it.[7] Firstly, the overall assessment of threat to the region seems to be lower in Southeast Asia than it is in the United States. Secondly, there is a basic difference in the perception of the nature of the threat. While Washington tends to see the dangers to the Southeast Asian states principally in military and security terms, the local élites themselves are far more inclined to perceive threats in economic and internal terms. As Gordon and Vasey recently reported:

> Although it may therefore [given the history of U.S. involvement in East Asia: the Korean War, the establishment of SEATO, the war in Vietnam] be understandable that Americans approach East Asia with security issues foremost in

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> their thinking, it is also evident that Asians themselves do not. One of the most striking findings of the study tour is that security issues do not have high salience among Asian leaders. This is noteworthy, given that almost all the discussions were with people for whom military and foreign affairs are in one way or another a professional responsibility. Had we met with officials involved in more clearly domestic areas of public policy, security threats would certainly have been even more remote from their perspectives.[8]

Given these differences in the perception of the threats to the Southeast Asian states, it is hardly surprising that there would be differences in prescriptions of how to respond to them. From the local perspective, the United States tends to apply, rather indiscriminately, military solutions. For many, the days of multilateral military alliances, such as SEATO, bilateral military ties such as that with Bangkok and Manila under the Manila Pact, and even U.S. base rights such as that in the Philippines are over or at least numbered. Southeast Asian governments see economic development programmes as the major response to what are basically internal and political problems. Thus, while these leaderships applaud any signs of a greater American military commitment to defend their regimes, they also do not want this support limited exclusively to the military sphere or to external threats. U.S. assistance is needed — but is useful only up to a point — in internal and especially economic arenas. These are, of course, areas where the U.S. contribution must, in fact, be limited and where the effectiveness in dealing with the threat rests with the actions of the regimes themselves.

Attitude towards the USSR

The ASEAN states share with the United States to some degree a concern with the growing presence of the Soviet Union in Southeast Asia. There is an apprehension both regarding the expansion of Soviet military power and the potential for the expansion of Soviet influence by means of those military capabilities, and through its ally or "client", Vietnam. There is frequent commentary in the Southeast Asian media regarding the size of Soviet deployments in the Pacific, although there is little apparent inclination to accept what appear to be inflated American figures for Soviet naval strength.[9] There was a general stirring in the region when a second Soviet aircraft-carrier, the *Novorossiysk*, entered the Pacific through the Straits of Malacca early in 1984. Thailand, especially, has reacted strongly to evidence of the build-up of the Soviet presence, such as of TU-16 bombers and TU-95 reconaissance aircraft, at the Cam Ranh Bay base originally developed by the United States in Vietnam.

Washington has seemingly done all it can to impress upon Southeast Asians the magnitude and danger of this Soviet build-up. The Secretary of Defence, Caspar Weinberger, made a five-nation tour through Asia — including stops in Singapore, Thailand, and Indonesia — in August-September 1982 to promise American military support to Asia in the face of the "increasing Soviet threat through Vietnam . . .".[10] A little over a year later, the American Assistant

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Secretary of Defence, Richard Armitage, warned the *Bangkok Post* correspondent in Washington that Southeast Asians should be wary of the "dramatic expansion" of Soviet military power in the region, the "clear evidence" of Vietnam's expansionist designs, and Moscow's "single-minded dedication to hegemony".[11]

There is little evidence that the ASEAN leaderships have supported the extreme form of these American contentions any more than they have accepted the U.S. figures for the size of the USSR's Pacific fleet. Indeed, the prevailing Southeast Asian point of view seems to be that the United States, particularly under the administration of Ronald Reagan, greatly over-emphasizes the Soviet threat. Washington is seen to have a "fixation" on the USSR, to attribute far too much of the responsibility for American difficulties and global troubles to the Russians, and to have a world outlook that is over-simplified in its harsh anti-Sovietism. A common view from the ASEAN capitals seems to be that Southeast Asia "is so low on the list of Soviet areas of interest as not to warrant major concern as a threat".[12]

On one level, this is a significant difference in rhetoric, emphasis, and world-view between the United States and the countries of ASEAN. It is also much more than that as it has serious policy ramifications as well. One such effect is to rigidify U.S. policy on the Indochina issue. This is a complex problem, to say the least. On the one hand, the Southeast Asians appreciate American willingness to let ASEAN take the lead while lending strong backing in the United Nations and other forums.[13] On the other hand, however, ASEAN does not want the opportunity for change to be restricted. While there are divisions within ASEAN on this issue, there is little sentiment to support what appears to be the PRC's position — and, apparently, Washington's — to "bleed" Vietnam, or to permanently cripple it.[14] America's stark anti-Soviet focus permits little flexibility on the issue.

There are additional ramifications that this American outlook has for ASEAN interests. For one, any enemy of the USSR is automatically embraced as a bosom friend by the United States. This is particularly worrisome for many in ASEAN in the case of China, as will be discussed below. Few in the region are comfortable with the escalating "Cold War" between Washington and Moscow, seeing the accelerated arms race and heightened tensions as threats to world peace. Relatedly, there are fears that such tensions could lead to missteps or misperceptions which would exacerbate Asia's tensions and bring greater conflict to the region. The current situation in which the superpowers can hardly talk to one another is naturally seen to preclude the possibility of their helping to negotiate some kind of resolution to regional crises, such as in Afghanistan and, particularly, Kampuchea. Finally, there seems to be a greater likelihood, given the current American outlook, that the United States might squander its resolve and its refurbished capabilities in some conflict of marginal importance, that it would lead to its not being available for a more legitimate — that is, relevant to ASEAN's interests — commitment of its power.

These particular differences and ambiguities in the U.S.-ASEAN relationship stem from a real policy dilemma for non-communist Southeast Asians. To the extent that they agree with Washington that Soviet influence in Vietnam is a long-

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term threat, how best can it be reduced: by isolating Vietnam or by dealing with it in some manner as to decrease its dependence on the USSR? There is a strong conviction among many in Southeast Asia that it is the stalemated Indochina situation which is leading to a greater Soviet presence; as long as Hanoi has no options, it will continue to lean heavily on Moscow. The more this growing Soviet power is projected, the more it will heighten tension and increasingly risk provoking a countermove by the Chinese. There is indeed a good deal of manoeuvring just below the surface within ASEAN on this issue. Some in Indonesia have called for Soviet involvement in a settlement in Indochina, and Foreign Minister Mochtar's visit to Moscow has finally been arranged for April 1984. Even Thailand, in many respects the most anti-Soviet member of ASEAN, particularly because of its "front-line" status *vis-á-vis* Vietnamese forces in Kampuchea, has asserted its willingness to recognize the Soviets as a legitimate player in the region: Bangkok's Deputy Prime Minister while in Jakarta in March 1984 admitted that "the Soviet Union as a superpower has a role to play in resolving the Kampuchean problem".[15]

Perception of the Role of the PRC

Differences in American and ASEAN perceptions of the Soviet threat to the region are inevitably tied to differing conceptions of the origin of the most significant long-term threat. And this leads to a discussion of the role of the People's Republic of China.

There are differences among the ASEAN states in the perception of China's future role in Southeast Asia. While no state is completely sanguine about the PRC's potential posture and behaviour, certain ASEAN states are much more inclined to subordinate their concern for the future to their perceived needs of the present. Thailand and Singapore, for example, see the present value, if not necessity, of maintaining PRC support against Vietnamese expansionism and Soviet long-term designs. Indonesia and Malaysia, on the other hand, also see that value but worry more about the PRC as the most significant threat to their security in the long run. To a large extent, this is due to the history of Chinese involvement in those two countries: the PRC's past and continuing support for their communist parties, the PKI (Partai Komunis Indonesia) and the CPM (Communist Party of Malaya), and the very touchy ethnic situation involving local Chinese in both states.

What is of particular concern to Jakarta and Kuala Lumpur — and also in the longer run to Bangkok, Singapore, and even Manila — is the degree of American support for the PRC. The ASEAN states, again particularly Indonesia and Malaysia, have been vocal in warning Washington to be cautious, to exercise skepticism about some aspects of PRC policy, and to avoid providing blind or naive American support for the PRC, for instance on the Indochina question, just because China is taking an anti-Soviet position. This has been an area where the policies of the Reagan Administration have been viewed as largely positive in Southeast Asia. Under the Carter Administration, there was far more talk among U.S. policymakers of America's playing of the "Chinese card" and the development of a

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"strategic partnership" between the United States and China. These indications of a solidifying "axis" between Washington and Beijing were viewed with apprehension in Southeast Asia. This apprehension has been greatly relieved by the Reagan Administration's policy of "greater realism" towards China. The new leadership's attention to Taiwan and the cooling of Sino-U.S. ties was treated favourably by ASEAN and was far less disquieting, especially in Jakarta and Kuala Lumpur, than U.S. policy had been at the end of the 1970s.

Nevertheless, ASEAN concern continues to be evident whenever negotiations between China and the United States seem to indicate progress towards significant American economic, technical, and in particular, military assistance to the PRC. The U.S. visit in January 1984 of Chinese Premier Zhao Ziyang was followed very attentively in Southeast Asia. There was general relief throughout the region as evidence accumulated that the talks had focused on the PRC's economic modernization and co-operation between the two rather than on the "anti-Soviet coalition" or military assistance.[16] Still, the apprehensions that lingered were substantial enough for the Malaysian Prime Minister, Datuk Seri Dr Mahathir Mohamad, to raise the issue with President Reagan on his visit to Washington close on the heels of Zhao. Dr Mahathir discussed strategic matters as a "principal item" with the United States, taking care to express Malaysia's — and Indonesia's — fears that the former might aid China's military potential beyond merely the defence of its own borders. He urged the U.S. leaders to give due consideration to ASEAN's security.[17]

How successful Mahathir was, and how legitimate these ASEAN concerns are, may be known in the not too distant future. After Zhao's visit, a high-powered PRC military delegation went on a month-long "window shopping" expedition in the United States.[18] An official of Beijing's International Institute for Strategic Affairs subsequently revealed that a multi-million dollar arms deal was in the "pipeline".[19] One of the key aspects of this possible transaction for Southeast Asians will be the kinds of weapons supplied by the U.S. side. Defensive weapons are viewed as acceptable — the Sino-U.S. talks reportedly have focused on anti-tank missiles, short-range air defence missiles, radar, and high-technology computers — as are, in the words of one ASEAN leader, "tanks, or strategic weapons for that matter . . .". What worries that leader and others in the region is that Washington might provide the PRC "with M-16s and other small equipment that will find its way down here in the hands of local insurgents".[20]

Economic Policies and Relations

It is in the area of economic interrelationships that many of the specific policy differences between the United States and the ASEAN countries emerge. Without going into the details of these often complex issues, it needs to be pointed out that the regional states have basically called for the United States to make a greater economic commitment to Southeast Asia. It is argued that this economic involvement is at least as important, if not more so, as American political and security

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involvement for the future of ASEAN and its members. At the fifth ASEAN-United States dialogue, held in Manila in December 1983, there was a pervasive feeling among the Southeast Asians that Washington had to demonstrate greater political commitment "to further accelerate ASEAN-U.S. co-operation in trade and investment".[21] The Malaysian-ASEAN Director-General, Yusof Hitam, stated at the meeting that while economic ties and co-operation with the United States were generally satisfactory, there was room for improvement. "What is lacking," he asserted, "is greater political will on the part of the U.S. government which seems to have been standing aside so far, leaving the initiative to be taken by the private sector".[22]

What ASEAN is calling on the United States to do includes, firstly, adopting a greater sensitivity to ASEAN's commodity exports, such as by supporting stable raw material prices and dealing with its own stockpiles, such as of tin, with care. Secondly, the United States should lower its tariff and other protectionist barriers to Southeast Asian manufactured goods. Finally, it should increase efforts officially to promote private investment in the area.

Perhaps the clearest recent example of a Southeast Asian expression of these concerns came with Malaysian Prime Minister Mahathir's visit to the United States in January 1984. In his wide-ranging address to the Washington Foreign Policy Association on "The Problems and Expectations of the Third World", the Prime Minister accused the United States, and specifically the Reagan Administration, of not paying enough attention to the "legitimate aspirations" of the Third World in general. Washington, he said, "often supports vested interests and opposes much-needed reforms that would bring relief to many small Third World countries". He went on to cite American opposition to various tenets of the New International Economic Order, refusal to sign the Law of the Sea Treaty, cut in funds to the International Development Association, lack of co-operation in multilateral trade negotiations, manipulation of raw-material stockpiles, and the closing of Western markets to Third World manufactures by high tariffs and other forms of protectionism. As he remarked in his address:

> Between the managed commodity markets in the developed countries — which are sometimes not averse to selling stolen products — and the threats posed by stockpiles, it is all a raw material producer can do to survive.
> There is no choice for the developing countries but to exploit their low labor cost and availability of raw materials and go into manufacturing.
> But immediately they run up against an obstacle.[23]

This obstacle, he pointed out, was protectionism and was unfair not only to the developing countries but also to the consumers in the developed, "protected", state who have to pay a higher price just to "maintain a production facility that is no longer economical". "It is truly unfortunate," he concluded, "that a great country like the United States all too often stands on the opposite side against small Third World countries."[24]

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The ASEAN states also make the general point that the United States should be concerned with these economic issues raised by Southeast Asians (and others) not simply out of humanitarianism or even out of a recognition of global interdependence. American policy-makers should also recognize that the security and stability of these states are directly dependent on these economic issues. Indeed, a major theme of ASEAN representations to the United States has been that the future security of the Southeast Asian regimes is perhaps more dependent on making economic progress than on meeting external aggression or even communist subversion.

Finally, there is some degree of ambiguity and ambivalence in this area of U.S.-ASEAN relations, as in the others. The regional states want this greater American commitment, politically and financially, while avoiding any substantial degree of U.S. economic domination or developing any greater dependency relationship. It is an area of relations that again calls for balance.

Some Explanatory Factors

There are, undoubtedly, a number of factors which help to explain why these issue-areas, on balance, have tended to produce strains and disagreements between the United States and ASEAN. Without seeking to enumerate every possible one, it might be worthwhile to highlight what may be the most salient and fundamental to the nature of the U.S.-ASEAN relationship.

The most fundamental part of any explanation of disagreement and ambivalence in relations between the United States and the ASEAN countries stems from the asymmetrical nature of the states involved. On one side is a superpower and on the other, a rather mixed group of smaller powers of varying levels of economic development and political stability. One measure of the asymmetry inherent in this is the interchange of trade between the two sides: while some 15 to 16 per cent of ASEAN's total trade is with the United States, only 5 per cent of American foreign trade is with ASEAN. In this sense, it can be argued that ASEAN "needs" the United States more than the latter needs the former. The point is, of course, that there is a basic and inevitable difference of perspective between a large power and smaller powers. The United States, as a superpower, has global foreign policy interests while those of the ASEAN states tend to be regional. Their priorities are likely to be quite different. Indeed, other regions or interests may look more important to the United States than Southeast Asia; this would simply not be true for ASEAN.

Relatedly, there is the obvious truth that the world "looks different" when it is viewed from Jakarta, Kuala Lumpur, Manila, Singapore, or Bangkok — or Bandar Seri Begawan, the capital of Brunei — on the one hand, and from Washington, D.C., on the other. The clearest example of the contribution of this geographical factor to differing perceptions and, consequently, differing policies is the status of China. American and ASEAN perceptions of the PRC would seem to be unavoidably at odds, given the fact the United States does not "live" next to

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China as do the states of ASEAN. Given the history of the relations between many of the Southeast Asian societies and China, past — and, in some cases, continuing — PRC support for communist parties and insurgencies, and the ethnic make-up of several of the ASEAN states, it would seem highly likely that there would be some degree of suspicion harboured in the region about Beijing. What welds these suspicions into a more active fear of the "Chinese threat" is the geographical proximity. The élites in ASEAN have a far keener appreciation than do the élites in Washington of the unchanging relevance of what Ho Chi Minh said in 1946 about China: "The last time the Chinese came they stayed a thousand years. . . . The white man is finished in Asia. If the Chinese stay now they will never go."[25]

Thirdly, domestic factors within both the United States and the ASEAN countries help to explain the observed differences in attitudes, perceptions, and policies. On the American side, for example, the rigid "hard-line" policy towards Vietnam cannot be understood without a recognition of the "scars" that involvement in the war there left on the American psyche. Politically, it is virtually impossible for an administration to argue for a more flexible approach to Hanoi.[26] America's current anti-Soviet ideology has domestic roots at least in long-held attitudes and perceptions. The U.S. domestic economy forms the foundation of American policies of protectionism. Moreover, electoral politics intrude on these and all other aspects of U.S. foreign policy. At the U.S.-ASEAN dialogue, for instance, the American representative reassured his Southeast Asian counterparts that President Reagan was completely in favour of free market forces being allowed to operate so as to spur economic growth *but*, he added, "facing an election year, pressures to protect our domestic industry from foreign competition will be difficult for our leader to manage".[27] While elections and public opinion polls are less of a factor in the Southeast Asian states, historical memories and economic interests are certainly relevant policy determinants. Of particular note, especially in Indonesia and Malaysia, is the role of the Chinese communities. These ethnic situations have had and will continue to have a strong impact on the perceptions and policies of the ASEAN states. It is not clear whether either the U.S. or the ASEAN side fully recognizes the reality of these domestic policy constraints on the other.

Finally, and relatedly, the divisions within ASEAN itself must be cited as part of the explanation for some of the ambiguities in relations between the United States and the member-states. There are significant differences between these six countries along such dimensions as size, wealth, political stability, and history as well as, as has been pointed out, in ethnic composition and foreign policy outlook. Even under the guise of a united ASEAN position on such an issue as Kampuchea, for example, there have been significant differences of attitude. This could be seen in the February-March 1984 manoeuvrings on the issue between Indonesia, Thailand, and Vietnam. The immediate impetus to the triangular "talks" were the comments made by the commander of the Indonesian armed forces, General Benny Murdani, while on an official visit to Vietnam. (He was the first ASEAN military leader to make such a visit and the highest ASEAN official to go to Hanoi

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since the Malaysian Foreign Minister's trip in January 1980.) Not only did Murdani tell the Indonesian Parliament on his return that Vietnam and ASEAN had a common desire for a peaceful solution in Kampuchea, but while in Hanoi he also reportedly asserted that the "Indonesian army and people" did not believe that Vietnam represented "a danger to Southeast Asia."[28] Within three weeks, Thai Deputy Prime Minister Pichai Rattakul landed in Jakarta, and on the very same day that Vietnamese Foreign Minister Nguyen Co Thach arrived there. Before Co Thach had a chance to pick up the themes of the Murdani visit — and Indonesian leaders were not denying that they were seeking to open a dialogue with Hanoi — Pichai reminded his Indonesian hosts that Vietnam would *always* be a threat to Southeast Asia as long as its troops remained in Kampuchea.[29] Continuing the "tug of war" with Jakarta in the middle, Co Thach asserted after talks with President Suharto that Indonesia shared with Vietnam a common view that China was a long-term threat to the region. Foreign Minister Mochtar denied that Indonesia had agreed with the Vietnamese view of China, saying that "Suharto merely listened".[30] Pichai went further by arguing that: Vietnam was ignoring ASEAN efforts to meet it halfway in resolving the crisis; it had rejected Mochtar's attempt at resolution; and China did not pose a threat but Vietnam did.[31] No sooner had Pichai returned to Bangkok — and reported that ASEAN was united on Kampuchea — than Mochtar left Jakarta for Singapore, Thailand, and Malaysia to correct "wrong impressions" about Indonesia's rapprochement with Vietnam and to brief his fellow foreign ministers on his talks with Co Thach.[32] Rather unconvincingly, Mochtar denied that Indonesia had a different policy on Kampuchea from its ASEAN allies.[33]

These differences within ASEAN show up in other contexts and even in other facets of the Indochina problem. For example, ASEAN efforts to get Washington to provide arms to the non-communist factions of the resistance coalition have foundered not only on U.S. domestic politics and the seeming consensus around a policy of "benign neglect" toward Indochina,[34] but also, it would seem, on divisions within the organization. Once again, Indonesia and Malaysia seem far less enthusiastic about the prospect of a renewed American military involvement than do Thailand and Singapore.[35] The point is that there are real limitations to attempting to deal with the ASEAN states as a single entity; ASEAN policy has had to be a compromise one and American behaviour has likewise often had to tread a precarious line in order to avoid alienating one member or another.

Looking Ahead to the Remainder of the Eighties

There are broad areas of agreement between the United States and ASEAN. These clearly outweigh the areas of disagreement and ambiguity. The latter seem to be nuances, or fine points. Yet, how the five issue-areas discussed here evolve will determine the nature of the overall relationship through the 1980s. What the U.S.-ASEAN relationship seems to need is fine tuning, not a major overhaul.

Unfortunately, from the perspective of the ASEAN states, their relationship with Washington will mainly depend on developments in American policy

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rather than on their own initiatives. Currently, the United States does not perceive ASEAN, nor Southeast Asia, nor the individual states there as vital interests or even of high priority in American global concerns. As discussed above, the calculus of need is quite asymmetrical in the U.S.-ASEAN case. Foreign trade between the two constitutes a much larger proportion of ASEAN's external trade than America's. The situation is similar in the area of American direct investment in ASEAN. The U.S. has substantially increased its investments in these states over the past decade or so, particularly in the areas of petroleum and manufacturing, and is the second largest investor in the region. Despite this growth and the crucial importance of this investment to the countries concerned, U.S. direct investments in ASEAN account for only two per cent of total American foreign investment. The states of ASEAN are also dependent on the United States for most of their military arms. U.S. military aid increased substantially in the late 1970s and the beginning of the 1980s, as did commercial arms sales from the U.S. to ASEAN armed forces.[36] Nevertheless, for fiscal 1984, Washington was to provide grant military assistance only to Thailand — and that, only of a magnitude of US$5 million — and total military sales of only slightly over US$200 million to the ASEAN states.[37] All of these factors place limits on any "anti-Americanism" in the ASEAN countries and mean that those countries continue to depend on the United States for economic assistance, military support, and deterrence, especially naval, against external threats to their security.

As long as this imbalance in perceived need between the two sides exists, American policy will continue to be security oriented, and U.S.-ASEAN relations will depend on swings in Washington's perceptions of and policies towards the Soviet Union and China. If this scenario is to be different, ASEAN will have to convince the United States to perceive it differently, to attach to it a higher priority. It is indeed a reality of world politics that weaker states can influence major powers.[38] The dilemma for the ASEAN states, however, is that American policy tends to be most susceptible to influence along the anti-Soviet "axis." While Singapore and the Philippines are not averse to utilizing this instrument to affect American conduct, Indonesia and Malaysia clearly are, and even Thailand is likely to be in the longer run. For this latter group, a reduction in tensions between Washington and Moscow, rather than a further escalation of hostility, would be valuable in providing these Southeast Asian states with more freedom of manoeuvre and a greater range of foreign policy options on which to base their long-term security.

The Philippines represents something of a special case. This is due to its historical relationship with the United States and their long-standing military ties. The importance to American security, as perceived in Washington, of Clark Air Base and Subic Bay naval base have been enhanced by the expansion of Soviet naval strength in the Pacific. The unfolding political developments in the Philippines, especially since the Aquino assassination in August 1983, have meant that U.S. policy has had to proceed with considerable caution. American policy increasingly seems to be distancing itself from beleaguered President Marcos,

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supporting U.S.-Philippine relations and, of course, the bases rather than any particular leadership.

There is certainly some value to the ASEAN states in not being too close to the United States. Independence and non-alignment are more viable, and the likelihood of being "smothered" by an overly involved United States is greatly lessened. Yet, the United States does provide a "security environment" for the ASEAN states, and at minimum, is the "least unwelcome" of the major powers. Moreover, it is true that as of a few years ago, a greater percentage of American trade is now with Pacific partners than with Atlantic ones. Interdependence of the United States and Asia, including Southeast Asia, is increasing and is not likely to be reversed. On the other hand, to the extent that the long-term threats to the ASEAN countries are in fact largely internal, there are substantial limitations to what the United States can do to help in any case.

These, then, are the areas of ambiguity in U.S.-ASEAN relations and some of the factors which provide the parameters for the evolution of that relationship through this decade and into the next. We are back to the need for fine tuning of mutual perceptions. Can the United States come to a clearer understanding of just what it expects, wants, and needs from ASEAN; can the ASEAN states do the same *vis-à-vis* Washington?

NOTES AND REFERENCES

*This is a revised and expanded version of a paper originally presented to the "Seminar on Southeast Asian Politics in the 1980s II" held at Universiti Kebangsaan Malaysia, Bangi, Malaysia, on 16–18 March 1984.

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2. Chin Kin Wah, op. cit., p. 121.
3. For this argument, and that after the Vietnam war "U.S. soldiers were simply symbolically replaced . . . by Yankee traders", see Martin H. Sours, "ASEAN and U.S. Foreign Policy", in *Asia and U.S. Foreign Policy*, edited by James C. Hsiung and Winberg Chai (New York: Praeger Publishers, 1981), pp. 173–90.
4. See Sours, op. cit., p. 173, for the argument that U.S. policy has begun to look at the ASEAN states as "a collective and singular focus within the foreign policy formation of the United States toward Asia".
5. 12 November 1983.
6. See Susumu Awanohara, "The Spurned Hosts", *Far Eastern Economic Review* (hereafter cited as *FEER*), 12 October 1983, pp. 14–15.
7. See particularly the findings in Gordon and Vasey, op. cit.; and Sheldon Simon, "The ASEAN States: Obstacles to Security Cooperation", *ORBIS* (Summer 1978), pp. 415–34.

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8. Gordon and Vasey, op. cit., p. 35.
9. "U.S. Navy intelligence sources" were quoted in February as stating that the Soviets had 140 submarines, a total of 800 naval vessels, and 445 aircraft in the Pacific; *New Straits Times*, 17 February 1984. On the other hand, *The Military Balance* (published by the International Institute of Strategic Studies in London), in its 1983–1984 edition, cited 120 submarines, about 530 total naval vessels, and 330 aircraft.
10. *South China Morning Post* (Hong Kong), 2 September 1982.
11. Cited in the *New Straits Times*, 10 October 1983.
12. Gordon and Vasey, op. cit., p. 43.
13. In October 1983, the General Assembly approved the ASEAN-initiated resolution — calling for withdrawal of all foreign forces from Kampuchea, restoration of its national sovereignty, self-determination, and non-interference in its internal affairs — by 105 in favour, 23 in opposition, and 19 abstaining. This was virtually the same tally as in 1982, and the fifth year in a row that the United Nations General Assembly had adopted such a resolution and recognized the credentials of the anti-Vietnamese Kampucheans, rather than the Hanoi-supported Heng Samrin regime. See Ted Marello, "ASEAN Holds the Line", *FEER*, 10 November 1983, pp. 46–47; and *New Straits Times*, 29 October 1983.
14. See Sheldon W. Simon, "Davids and Goliaths: Small Power-Great Power Security Relations in Southeast Asia", *Asian Survey*, March 1983, pp. 307–8.
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17. See *Asiaweek*, 3 February 1984, p. 9.
18. See ibid., 23 March 1984, pp. 30–32.
19. Ibid.
20. Gordon and Vasey, op. cit., p. 41.
21. *New Straits Times*, 6 December 1983.
22. Ibid.
23. Ibid., 18 January 1984.
24. *Straits Times* (Singapore), 22 January 1984.
25. Cited in *FEER*, 16 February 1984, p. 59.
26. For a discussion of this and other internal and external constraints on contemporary American policy regarding Vietnam, see Gavin Boyd, "U.S. Policy Towards Indochina", in *Asia and U.S. Foreign Policy*, edited by Hsiung and Chai, pp. 147–72.
27. *New Straits Times*, 6 December 1983.
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29. *New Straits Times*, 12 March 1984.
30. Ibid., 13 March 1984.
31. Ibid., 15 March 1984.
32. Ibid., 21 March 1984.
33. Ibid., 22 March 1984. See also Susumu Awanohara, "Where There's a Will . . .", *FEER*, 1 March 1984, pp. 9–10.
34. See Nayan Chanda, "Hanoi's MIA Bait", *FEER*, 23 February 1984, p. 28. Chanda refers to divisions within the U.S. intelligence community concerning military assistance. He also contends that the Administration has attempted to begin clandestine support for the resistance but has yet to win over the Congressional watchdog committee.
35. Rodney Tasker, "Search for Substance", *FEER*, 1 September 1983, pp. 40–41.
36. For example, see the figures cited in Sheldon W. Simon, "U.S. Security Interests in Southeast Asia", in *U.S. Foreign Policy and Asia-Pacific Security. A Transregional Approach*, edited by William T. Tow and William R. Feeney (Boulder, Co.: Westview Press, 1982), p. 125.
37. See U.S. Department of State, "International Security and Development Cooperation Program", Special Report No. 108, Washington, D.C., 4 April 1983, p. 17.

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38. For an in-depth study of this theme, see Robert C. Horn, *Soviet-Indian Relations: Issues and Influence* (New York: Praeger Publishers, 1982).

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Philippine Economic Performance in Regional Perspective*

HAL HILL and SISIRA JAYASURIYA

Introduction

The Philippine economy is experiencing its most severe depression since independence. The economy actually contracted in 1983 and is likely to continue to do so in 1984. External reserves are extremely precarious, and the country's overseas debt situation is the most serious in non-communist Asia. Perhaps most importantly, there does not appear to be a consensus among the current political leadership — nor among the major opposition groups — concerning the country's current economic difficulties and future development strategies. The immediate cause of the present impasse is the political instability and resulting capital flight following the assassination of Benigno Aquino, the opposition leader, in August 1983. However, even before this event the economy was severely recessed, as indicated by the trends in almost every major economic indicator from 1982. Thus, although the current crisis has been precipitated by the post-assassination political instability, the reasons for the underlying economic malaise are more deep-seated.

The purpose of this paper is to broadly assess Philippine economic performance during the 1970s and early 1980s in order to understand the background to the current crisis. The paper consists of two main sections, the first being an analysis of the economy's performance and some of the more important issues in Philippine economic development. These issues — including equity, the role of the public sector, and the foreign debt — have been highlighted in the current disturbances, but they have been contentious in the Philippines since the 1960s and before. Secondly, the Philippine economic record is examined in regional perspective. East Asia is one of the most rapidly growing regions in the world, and a comparison with these economies is perhaps invidious. For this reason, we focus on Thailand, an economy with many similarities to the Philippines. We conclude with a brief discussion exploring future economic scenarios.

Recent Economic Developments

Growth and Trade. Until the onset of the recession in 1982, the Philippine economy had been growing quite rapidly. During the 1970s the average annual growth rate was in excess of 5 per cent — an internationally respectable figure. In per capita terms, the rate was about 3 per cent, an increase from about 2 per cent in the 1960s. The structure of the economy also changed significantly, although for the last twenty years there has been no leading sector (see Table 1). The most

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TABLE 1
ANNUAL GROWTH RATES BY SECTOR, 1961-82
(in per cent)

Sector	*1961-65*	*1965-69*	*1969-73*	*1973-77*	*1977-82*[a]
Agriculture	4.6	4.0	3.4	5.4	4.3
Industry	5.8	5.5	7.3	8.1	5.4
Mining	2.7	14.6	11.4	4.3	4.2
Manufacturing	4.8	6.6	7.5	5.0	4.7
Construction	10.8	- 0.6	5.2	21.8	8.0
Utilities	3.0	5.3	7.9	11.2	8.3
Services	4.6	4.7	4.6	5.2	4.8
Net Domestic Product	4.8	4.6	4.9	6.1	4.5

[a] The 1982 figures are preliminary and likely to have overestimates.

SOURCE: National Economic and Development Authority (NEDA), *Statistical Yearbook of the Philippines and Philippines Economic Indicators*, various issues.

rapidly growing sector of the economy has been construction, but this has been from a small base, and much of the expansion is accounted for by the building boom in the mid-1970s. The share of manufacturing rose slightly in the 1960s but, reflecting the limits of the import-substituting strategy pursued for most of the post-independence era, its share actually declined during the 1970s. Despite a relatively good performance in the late 1970s, the share of agriculture has shown a steady downward trend, which is consistent with the general pattern of economic development. These changes in the economy, as evidenced by the national accounts data, are broadly reflected in the changing industrial composition of the workforce.

Even before the capital flight precipitated the current foreign exchange crisis, the balance of payments had been a major preoccupation of policy-makers. There has been an almost chronic imbalance between merchandise exports and imports ever since independence, which in recent years has been increasingly serious. For example, in 1982 exports were less than two-thirds of imports. A similar proportion is likely for 1983. (For earlier years, see Table 2.)

TABLE 2
THE PHILIPPINE EXTERNAL SECTOR, 1960-82

	1960	*1965*	*1970*	*1975*	*1982*
Merchandise Exports as % of Merchandise Imports	92.8	95.2	97.4	66.3	60.6
Terms of Trade (1972 = 100)	147.1	128.0	141.6	87.8	55.6
Three Principal Exports as % of Total Exports	65.1	60.6	58.6	44.6	39.4
Non-traditional Exports as % of Total Exports			9.4	22.2	45.6[a]

[a] Refers to 1981

SOURCE: Central Bank of the Philippines, *Annual Report*, various issues.

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There is little doubt that inappropriate trade and industrialization policies — to be discussed in the next section — have contributed to the poor external sector performance. Many newly established industries, fostered by high protective barriers, have simply been inefficient savers of foreign exchange. But it should also be noted that the external environment has been very unfavourable since the mid-1970s. The main reason has been a marked deterioration in the country's terms of trade (Table 2). The Philippines is heavily dependent on imported oil, which accounts for about three-quarters of its total energy consumption. The initial effects of the first-round OPEC (Organization of Petroleum Exporting Countries) oil price increases were cushioned somewhat by continuing buoyant commodity prices, especially for sugar. But since 1975, the terms of trade has declined sharply, owing initially to declining sugar prices and subsequently to the drop in coconut prices and the second-round OPEC price increases. The annual oil import bill rose from about US$0.25 billion before "OPEC I" to approximately US$2.5 billion after "OPEC II", while simultaneously the prices of two of the country's major export earners fell considerably. A second factor behind the unfavourable external environment has been the recent trend towards protectionism in the developed country markets. Although less important than the first factor, protectionism has affected certain manufactured exports at the very time that the government has been promoting these exports.

How significant have these developments been? It is possible to estimate crudely the effect of the deteriorating terms of trade by deflating exports at current prices by an import price index, and then relating the changes to the base year period. This exercise is attempted in Table 3 for the years 1973 — that is, before the deterioration — to 1982.[1] The data indicate that, despite the terms of trade deterioration, the international "purchasing power" of exports has continued to rise in most years, and that it is now higher than a decade ago. In effect, what has happened is that the quantity increase has more than compensated for the price decrease (exports at current prices deflated by import prices). In other words, while the *price* terms of trade has declined, the *income* terms of trade has still risen. Had the price terms of trade remained constant, of course, the export earnings would have financed a substantially larger volume of imports. But the relatively good export performance has, at least to some extent, offset the unfavourable movement in the terms of trade.

The effect of the deterioration in the terms of trade may also be assessed by calculating a revised GNP (gross national product), which allows for the fact that a given physical quantity of exports can now effectively purchase fewer imports. This is achieved by adjusting exports for changes in the unit values of exports and imports. Table 4 explains the procedure and provides the results. The growth rate of the adjusted real GNP (column 4) has been substantially less than that of actual real GNP after 1973, when increasing oil prices and decreasing sugar and other commodity export prices resulted in the terms of trade decline. In fact, for six of the eight years after 1974, the adjusted growth rate has been less than the actual one. Consequently, "economic welfare", as measured by the crudely adjusted

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TABLE 3
THE TERMS OF TRADE EFFECT ON THE DOMESTIC ECONOMY, 1973–82
(in million US $)

	1973	*1974*	*1975*	*1976*	*1977*	*1978*	*1979*	*1980*	*1981*	*1982*
Total Exports (current prices . .)	12,148	18,454	16,602	19,005	23,148	25,051	33,696	43,142	44,620	42,411
Unit Value of Imports 1975 = 100	60.03	84.7	100	101.5	112.1	113.8	134.1	169.2	197.8	182.7
Total Exports at 1975 Import Values	20,146	21,787	16,607	18,742	20,649	22,013	25,128	25,498	22,558	23,214
Increase/Decrease (+/−) from 1972	—	1,641	−3,539	−1,422	503	1,867	4,982	5,352	2,412	3,068

SOURCE: Computed from International Monetary Fund, *International Financial Statistics*, Washington, various issues.

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TABLE 4
GROWTH RATES, ADJUSTED FOR TERMS OF TRADE, 1972–82
(1975 prices)

Year	*Actual GNP (billion pesos) (1)*	*Growth Rate (%) (2)*	*Adjusted GNP (billion pesos) (3)*	*Growth Rate (%) (4)*	*Growth Differential (4)–(2)*
1972	92.58	—	93.77	—	—
1973	101.51	9.65	106.11	12.92	3.27
1974	107.94	6.33	114.73	8.12	1.79
1975	114.26	5.86	114.26	– 0.41	– 6.27
1976	121.24	6.11	118.58	3.78	– 2.33
1977	129.70	6.98	124.10	4.66	– 2.32
1978	138.50	6.78	135.03	8.81	2.03
1979	147.95	6.82	145.01	7.39	0.57
1980	154.39	4.35	142.54	– 1.70	– 6.05
1981	160.18	3.75	142.05	– 0.34	– 4.09
1982	164.15	2.84	145.46	2.40	– 0.44

Note: GNP is adjusted by multiplying the value of exports by the ratio of export to import prices.
That is, let D = GNP – X
Then the adjusted GNP = X. $\frac{X_p}{M_p}$ + D
where X_1 X_p and M_p are the value of exports, unit export values and unit import values respectively.
SOURCE: As per Table 3.

GNP series, is now substantially less than the actual GNP figure.

The declining terms of trade is just one — although possibly the major — means by which external events affect the domestic economy. It understates the adverse effects to the extent that it does not take account of rising real interest rates and protectionism (at least, the protectionism that does not manifest itself in price effects). But, as already noted, the adverse effects are mitigated in at least one case through the recycling of "petrodollars" in the form of temporary labour migration and overseas construction contracts.[2]

Problems in the external trade sector have not been without some positive consequences, however. For one thing, they have prompted increased commodity and country trade diversification. There are at least two indications of the former (Table 2): firstly, the country is now less dependent on its major commodity exports — that is, copra and other coconut products, sugar, timber, and copper concentrates — although in part, this is due to declining prices for these products. Secondly, as a corollary to this, "non-traditional" (principally manufactured) exports have become increasingly important and now account for almost half the total. There has been a similar diversification in the case of trading partners. In the early post-independence era, the United States accounted for almost 80 per cent of

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Philippine trade. This figure has fallen substantially, hastened by the termination of the Laurel-Langley Agreement and by increased trade with Japan, the Middle-East, the neighbouring Asian countries, and the socialist bloc.[3]

The second positive consequence has been an increasingly flexible management of foreign exchange policy, at least until the current crisis. Apart from a few brief episodes of liberalization, a disequilibrium foreign exchange rate (as evidenced by the disparity between the official and black-market rates) was maintained for much of the first three decades of independence. Beginning in the late 1970s, however, the disparity between the rates narrowed substantially, until mid-1983.

Industry and Agriculture. The performance of industry and agriculture since the 1960s has been mixed, and their fortunes closely related. The Philippine case is a classic example of a prolonged commitment to import substitution, the result of which are the well-documented undesirable consequences for the agricultural sector: for many years, the exchange rate was overvalued, with negative effects on the (principally agricultural) export commodities; high levels of protection designed to foster the growth of new manufacturing activities adversely affected the domestic terms of trade between agriculture and industry; and successive governments have attempted to suppress the price of "wage-goods" (principally rice) for the expanding manufacturing industries.[4]

The fact that the Philippines experienced such a prolonged period of import substitution meant that, by the mid-1970s, the opportunities for profitable, new domestic-market oriented industries were largely exhausted, and that the sector's growth was limited to that of the economy as a whole. In fact, as Table 1 illustrates, the share of manufacturing in the economy actually declined marginally from 1973 to 1982. A similar picture emerges for industrial-sector employment which, for the second half of the decade, grew at the same rate (3.2 per cent) as the work-force as a whole — a serious indictment indeed in a labour surplus economy, especially as some sections of agriculture are shedding labour. As the former Minister for Economic Planning remarked in 1980, industry "has become sedentary even before it reached the age of puberty".

The reasons for the poor performance have been well documented (see note 4) and need not be repeated here. Undoubtedly, the trade regime, characterized by high and highly variable tariffs, and extensive import and foreign exchange controls, has been a major factor inhibiting the country from exploiting its comparative advantage in labour-intensive manufactures. Previous attempts to superimpose an export-oriented strategy on a basically inward-looking industrial base, through a variety of mechanisms (such as export processing zones, bonded warehouses, import duty rebates), while contributing to the growth of manufactured exports, have resulted in enormous administrative difficulties, often so complex that small and medium-sized firms have been discouraged from attempting to export.

In an effort to revitalize and rationalize industry, the government in the late

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1970s announced an ambitious programme consisting of a more liberalized trade regime and the development of a wide range of basic industries. The restructuring programme entails the unification and reduction of tariff rates, and the promotion of industries considered likely to have good international market prospects. Funding has been provided through World Bank structural adjustment loans of US$200 million (September 1980) and US$300 million (March 1983). Nominal tariffs, on average the highest in ASEAN, is to be reduced to an average nominal rate of 28 per cent in 1985, and a range of non-tariff barriers (principally import licensing) is to be reduced (Bautista 1981). To date, 14 industries have been selected for rehabilitation, with emphasis on labour-intensive activities such as production of garments, footwear, and furniture and food processing.

The programme has been overshadowed by political developments but, in the longer-term, if the Philippines is to develop a dynamic export sector, the restructuring is essential. Nevertheless, it should be recognized that the spectacular export-oriented success stories of the 1960s will not be repeated in the current era of slower world economic growth, rising protectionism and increasingly competitive export markets, as more countries attempt to emulate the success of the NICs (newly industrializing countries).

The second element of the government's industrial strategy — now shelved, at least temporarily, owing to the precarious supply of foreign reserves — was to have been the establishment of a series of major industrial projects. The list of proposed projects was extensive, including aluminium and copper smelters, a petrochemical complex, and an integrated steel mill. The government's stated objective in promoting the projects was to develop an efficient, broadly-based industrial sector for downstream user industries, which would utilize the country's natural resources. However, many of the projects are capital and energy-intensive, and the experience of more industrially-experienced LDCs (less developed countries) with heavy industry, particularly those in which technology and design changes are occurring rapidly, suggests that many of the proposals could be uneconomic (see Pack 1981, for a survey of the issues). Given the magnitude of the country's foreign debt, any future government is likely to adopt a cautious attitude towards large-scale projects of this type.

In contrast to the rather gloomy picture for industry, agricultural performance has, in general, been quite satisfactory. During the 1970s, output grew at a rate of 4.9 per cent annually, up from 4.3 per cent in the 1960s. Land-extensive agriculture has generally reached its limits, except for a few areas in the "outer" islands, and increases in output must now come primarily from yield increases. The four main crops have traditionally been the two food crops, rice and maize, grown for domestic consumption, and coconuts and sugar, produced mainly for export. In recent years, pineapples and bananas have also been important exports. But we shall focus here on the four main crops.

Rice is frequently hailed as something of a success story since the early 1970s. Production grew at a historically rapid rate from 5.3 million tons in 1970 to 8.2 million tons in 1982. By 1977, the Philippines had attained self-sufficiency, and

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has even exported modest quantities, though imports of other cereal grains, particularly wheat, have increased (Onate 1982). The production increases have enabled stable prices to be maintained for urban consumers, hence contributing significantly to political stability. Furthermore, since rice is the staple food, low (indeed, declining) real prices have also reduced inflationary pressures in the economy.

In the absence of an expansion in the area devoted to rice, the higher output was primarily a result of higher per hectare yields and, to a lesser extent, increased cropping intensity. The average national yield rose by 35 per cent during the 1970s, with much higher increases in areas with good water control and irrigation. These productivity increases came from the application of the new "seed-fertilizer" technology developed at the International Rice Research Institute located in the Philippines. By the end of the 1970s, high yielding varieties covered over 75 per cent of the rice areas; fertilizer use also doubled during the decade.

This new rice technology, which has come to be known as the "green revolution", was most productive in environments with good irrigation and water control. Public sector investment in irrigation was substantial in the 1950s and particularly the 1960s. Nearly half a million hectares were irrigated between 1958/59 and 1967/68 (Ongkingco et al. 1982). While irrigation investments declined significantly during the following decade, the availability of substantial areas of well irrigated land enabled rapid output increases with the introduction of the new rice technology, which was brought to farmers through a much expanded extension service during the 1970s.

On the other hand, the price intervention measures of the government had generally adverse effects on producer incentives. A floor-price scheme operated by the government was ineffective in maintaining farm gate prices, while urban consumer prices were kept low through the government monopoly of foreign trade in rice (Unnevehr 1982). The decline in real rice prices during the last decade was such that (barter) terms of trade for rice farmers fell by 40 per cent (Table 5). These disincentive effects were not fully compensated for by the provision of subsidized credit under the Masagana 99 programme which, even at its peak in the mid-1970s, reached only a minority of farmers. Since 1976, fertilizer use has actually been taxed, despite large subsidy payments to inefficient domestic manufacturers and importers (David and Balisacan 1982; Te and Herdt 1982).

Despite these disincentives in public sector pricing policies, the "green revolution" technology spread rapidly during the 1970s, particular since 1974. The main beneficiaries were rice consumers and, as the technology was essentially land-augmenting, owners of irrigated rice-land. The substantial output increases enabled profitability to be maintained to some extent despite adverse movements in the terms of trade. At least in its initial stages, the new technology increased labour demand and possibly contributed to alleviating downward pressure on agricultural wages (Hayami and Kikuchi 1981). On the other hand, as will be discussed later, it failed to prevent income inequalities and polarization from developing in the countryside. Certainly, by concentrating technical advances in the well irrigated, better

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TABLE 5
TERMS OF TRADE FOR RICE PRODUCERS

Year	*Rice Price*	*Non-food Price Index*	*Terms of Trade*
1972	100	100	1
1973	114	126	.90
1974	171	166	1.03
1975	181	182	.99
1976	173	199	.87
1977	178	221	.81
1978	170	240	.71
1979	186	281	.66
1980	199	340	.59

SOURCE: *Wholesale price index*, Manila.

endowed areas, it worsened regional income disparities. In summary, the "green revolution" was not a panacea for the many problems of the Philippine rural sector, though, arguably, on balance its overall effects have been beneficial.

Maize, like rice, has had sustained growth throughout the decade. However, the increased output came primarily from the extension of land area, often into marginal land, though yields also increased. Technical change has been minimal, yields remain quite low (currently only about half that of Thailand), and the industry has been unable to respond to increased market opportunities arising from both domestic and external demand from the feed-mill industry. The lower political importance of maize, despite the fact that it occupies 40 per cent of total food crop area and is the staple of 20 per cent of the population, has resulted in less government support. Until recently, in practice, public sector investment and involvement in the maize industry was minimal and a production programme, Maisan 77, was never vigorously pushed. Although there has been some revival of attention recently, with plans to increase the adoption of new hybrid varieties, the industry remains basically subsistence oriented. As with the major export crops, government policy has moved away from protection, primarily to permit cheap imports for the domestic feed-mill industry.

The depreciation of the peso and the foreign exchange crisis will substantially increase the price of imported feed-grain. This can improve the incentives for developing a more market oriented maize industry. If this occurs, the potential for increasing yields and production are quite high, given the existing technological slack.

The two traditional export crops, *coconuts* and *sugar cane*, have had generally declining fortunes after enjoying a boom in the mid-1970s when world prices rose to unprecedented levels. Before the end of the Laurel-Langley Agreement in 1974, both enjoyed a substantial degree of protection by virtue of their access to the protected U.S. market, despite government policies which attempted

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to keep low domestic prices for coconut oil and sugar. Both cultivated area and production expanded, and output during the mid-1970s reached historically high levels. Since then, however, they have faced a combination of deteriorating external market conditions and government policies which have had severe adverse effects on producer incentives (David 1982).

In both industries, regulatory bodies with monopoly powers have been established. These bodies, headed by politically influential groups, have been widely criticized as being mechanisms for assisting such groups to benefit at the expense of small farmers and farm-labourers. For example, coconut farmers (primarily smallholders) have been forced to pay a levy, the benefits of which largely accrue to a group of powerful political individuals who control milling and trading facilities.

In the context of declining prices, the effects of such taxes on producers have been severe and output has declined substantially. In the sugar industry, the decline has been such that in 1983 the Philippines had to purchase sugar overseas to meet its export commitments, even though these commitments were well below export levels of the mid-1970s.

Coconuts are primarily a smallholder crop, while sugar is generally grown in large plantations. The squeeze on the incomes of the very large rural population dependent on these crops has made them politically restive. The workings of regulatory bodies has also become a politically controversial issue. The coconut levy, in particular, has come under fire as being a blatant example of squeezing small agricultural producers for the benefit of rich and politically powerful groups.

Future market prospects appear to be particularly bleak for sugar in the short to medium term. Prospects for coconuts are somewhat better though it must be noted that the Philippines, while accounting for about half the world's coconut trade, has no real market power due to the presence of many close substitutes. On both equity and output grounds, however, removal of the current disincentives in the traditional export crop sector is likely to have a positive impact, even in the absence of improved external conditions.

Equity and distribution. While in aggregate the economy grew quite rapidly until the early 1980s, critics of the regime have alleged that the distribution of income and wealth has become more uneven in the last decade or so. Government policy statements have increasingly emphasized the goals of alleviating poverty and achieving basic needs. One issue — land reform — has received special attention. On the first anniversery of the proclamation of the Land Reform Decree (PD 27), President Marcos stated: "The land reform program is the only gauge for the success or failure of the New Society." Indeed, martial law itself was justified on the grounds that the legislative branch had obstructed Marcos' earlier attempts at rapid implementation of land reform legislation, despite substantial evidence that the opposite was the case (Kerkvliet 1979).

There is overwhelming evidence that certain individuals and groups with strong "palace connections" have benefited enormously since the late 1960s. But

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what can be said about overall trends in income distribution and poverty? Two comprehensive surveys in the last few years (Mangahas and Barros 1979; and World Bank, 1980a) have addressed this question. The fact that both have had difficulty reaching definitive conclusions attests to problems associated with the quality and interpretation of the data.

There are two main sources of information on trends in income distribution and poverty for the country as a whole, both of which have serious limitations. The first is the nation-wide Family Income and Expenditure Surveys (FIES), results of which have been published for the years 1957, 1961, 1965, 1971, and 1975 (see *Statistical Yearbook of the Philippines*, various issues). The data suggest two main conclusions regarding inequality and poverty in the Philippines. Firstly, there is substantial inequality between rich and poor, the average income of the top quintile generally being 13 to 16 times higher than that of the bottom quintile. (Of course, the difference is much greater for the top and bottom decile.) Nevertheless, the Gini ratio — a summary measure of distribution — has altered very little over the period (Tan and Holazo 1979). In sum, income inequality appears to be high but quite stable. Secondly, on the basis of the Survey data, it is possible, through the establishment of a poverty line, to measure the proportion of the population in poverty. The estimates vary according to the benchmark chosen,[5] but all studies conclude that the proportion increased over the period 1965 to 1975 and that, for the latter year, the proportion exceeded 50 per cent.

It is possible to reconcile a quite stable distribution with an increasing proportion of the population in poverty if economic growth is sluggish. But this was not the case for the Philippines during this period. The explanation appears to be that the 1975 FIES data were characterized by even greater income and expenditure understatement than in earlier years. To the extent that this understatement is likely to be more heavily concentrated among the wealthy, it is quite possible that income distribution may have worsened over the period. Nevertheless, to assess the full impact of the martial law years on distribution and poverty, data from the later Surveys are required.[6]

The second set of data relates to trends in real wages, based on data collected annually by the Central Bank (for urban workers) and the Bureau of Agricultural Economics (for agricultural workers). Both series suggest a long-term, secular decline in real wages from the 1950s to 1980 — when their publication ceased — with the decline being particularly pronounced in the 1970s. Here also, the data need to be interpreted cautiously: the changing composition of wages, between base wage and additional allowances, has altered over time; the occupational categories are highly aggregated (for example, "unskilled" labour); and, in any case, distributional inferences are necessarily limited by the fact that the data refer to the (generally better-off) workers in regular wage-employment, rather than to the majority of the work-force which is self-employed.

In contrast to the gloomy picture painted by the FIES and real wages data, some health and education-related social indicators are at least comparable to those of other middle-income LDCs. Per capita food supplies (that is, food

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production plus food imports less food exports and deductions for seed grain, storage losses, and so forth) have risen, reflecting the growth in agricultural output. The annual *Food Balance Sheet* series suggests that per capita calorie and protein supplies have been improving, and that both are more than 100 per cent of average requirements. Conversely, the *1978 First Philippine Food Consumption Survey*, which NEDA (National Economic and Development Authority) believes is more accurate than the *Food Balance Sheet* data, found per capita calorie intake to be only 88.6 per cent adequate, and that 54.4 per cent of children aged 1–6 years are malnourished (80 per cent mildly so) (NEDA 1980, p. 174).

The record on land reform is also mixed. The Philippines is unique in South-east Asia, with its chasm between large landed élites and tenant farmers spawning a semi-feudal land tenure pattern in many rural areas. Since independence, successive governments have proclaimed their commitment to land reform, but little has been achieved. The Marcos regime, however, has implemented land reform more vigorously than its predecesors, especially in those areas of Luzon which were the centres of agrarian unrest. Here, rapid technological change in rice cultivation has enabled the beneficiaries of the programme to capture substantial benefits.

Nevertheless, the current policies hardly constitute a comprehensive land reform programme because of their limited coverage of crop lands and their exclusion of landless rural workers (Ledesma 1982). The 1972 presidential decree (PD 27) covered only rice and maize farmers whose landlords owned more than seven hectares. Operation Land Transfer (OLT) was initiated to distribute Certificates of Land Transfer (CLT) to eligible tenant farmers, who became amortizing owners. Later, in 1974, Operation Leasehold (LHO) was launched to give fixed leasehold status to share tenants of landowners who owned seven hectares or less. (Subsequent presidential decrees have proclaimed the extension of the programme to cover share tenants on all crop lands, but this has never been implemented.) Landless workers have been completely excluded.

The limitation of land transfer to rice and maize farmers, whose landowners owned more than seven hectares, meant that 60 per cent of the tenant farmers would never obtain land ownership. However, they become eligible for fixed leasehold status. In terms of the total crop area of the country, these two groups would cover only 20.6 per cent; they constitute only 13.7 per cent of the total agricultural labour force.

By 1979, 54 per cent of those under OLT had been issued CLTs. At the current rates, only 42 per cent of the target group would receive such certificates by the year 2000. Since amortization payments start after the receipt of CLTs, the majority of these farms will not be able to even start making payments during their lifetimes, let alone own the land. Even those who have started payments have run into financial problems; a survey indicated that 80 per cent of the respondents had overdue payments (Montemayer and Escueta 1977).

Even in those areas where the reform has been most extensive, serious distribution issues remain. In a "progressive" village in Laguna where technical change had been rapid, careful analysis revealed that ". . . the inequality within the village

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has been aggravated by the land reform operations because larger tenants captured major benefits and no gain accrued to landless workers" (Hayami 1978). Indeed, Hayami (1979) later observed that there was a "dramatic trend towards polarisation" in the village.

The link between tenure reform and productivity increases has not been convincingly demonstrated in empirical studies. However, land-augmenting technical change (of the "green revolution" type) raises the issue of appropriate land valuation more acutely, as the crucial question of who ultimately controls the land remains unchanged. And, Ledesma (1982) observes: ". . . tenure change by itself is no guarantee for increased production; but increased production *before* tenure change can be a formidable deterrent to the completion of land tenure reform."

The Public Sector. The public sector in the Philippines is quite small compared to that in many other LDCs at similar stages of development, although its share of GDP (gross domestic product) has increased since the early 1970s and the composition of central government expenditure has changed considerably (Table 6). Its changing role during and since the martial law years has been the subject of much criticism, but there has been a number of positive developments during this period.

One of these is the industrial restructuring programme, already referred to. The intention here is to rationalize the system of government incentives and to reduce the intervention of the Central Bank and the Ministry of Trade and Industry in the industrial sector. The programme was essentially proceeding according to plan before the current crisis. Similarly, the energy import substitution strategy was a bold attempt to alter energy consumption and production patterns. There is little doubt that the targets — to double energy supplies and reduce the share of imported oil from 77 to 41 per cent over the period — were unrealistically high, but the general thrust of the programme was sound.

TABLE 6
CENTRAL GOVERNMENT EXPENDITURE, 1972–82

Year	*1972*	*1973*	*1974*	*1975*	*1976*	*1977*	*1978*	*1979*	*1980*	*1981*	*1982*
Government Expenditure as % of GNP	10.10	10.97	12.66	16.67	16.03	14.79	15.52	14.94	14.48	15.24	14.81
Composition of Expenditure (%)											
Defence	14.58	15.41	15.34	18.59	19.36	19.14	12.88	14.36	12.40	11.09	10.52
Education, Health, Social Security and Welfare	30.89	24.57	19.55	16.47	18.33	18.49	19.69	15.95	15.58	16.46	17.40
Economic Services	21.62	31.28	39.76	43.08	37.52	32.04	35.07	40.51	40.96	39.71	38.40
All other expenditures not included above	32.91	28.74	25.35	21.86	24.79	30.33	32.36	29.18	31.06	32.74	33.68

SOURCE: As per Table 3; and Asian Development Bank, *Key Indicators of Developing Member Countries*, Manila, various issues.

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The increased militarization of the Philippines, which has been made much of by critics of the regime, also needs to be kept in proper perspective. During the martial law years, there was a clear shift towards defence and away from social areas, such as health and education (Table 6), although the data need to be interpreted cautiously because of frequent category reclassifications and the high level of aggregation. This pattern was particularly pronounced during the mid-1970s, and the figures probably understate the shift to the extent that the proclamation of martial law conferred greater power on the military, and hence enhanced their ability to exact increased "unofficial" charges. The increase has tapered off more recently and Philippine defence expenditure is very modest by regional standards.[7]

Nevertheless, the Philippine record of public sector resource management is suspect, and there are important equity and efficiency implications of the expanded government role. The dramatic revelations in late 1983 and early 1984 concerning the Central Bank's mis-statement of the level of international reserves and its money supply targets are symptomatic of the problems, but they are actually deeper than this.

One of the major problems has been public sector support for projects of doubtful viability. There have been numerous examples of these in recent years. One of the more controversial was the land reclamation scheme along the foreshore of Manila Bay. Another is the hotel and tourism-related expenditures in the mid-1970s. If any of the major industrial projects are revived, government support, either directly or indirectly through sourcing requirements for local users, may be required. But perhaps the most contentious is the Kilusang Kabuhayan at Kaunlaran (KKK, or People's Livelihood Programme), which was launched amid much fanfare in August 1981 by the wife of President Marcos. The government has committed 4 billion pesos to the KKK, which will be used mostly as loans for small-scale "people's" projects across a wide range of activities. A full evaluation of the programme is premature, and no doubt some of the funds are being allocated to projects which would have received public sector loans in any case. But the evaluation and appraisal apparatus of the programme is suspect — small-scale finance is a complex area even for specialists. The funds for the projects go through the state banks, but they are merely conduits and provide no system of checks and balances. Already, problems of arrears and allegations of corruption have emerged.

The second aspect of the problem is that the beneficiaries of much public sector activity are frequently powerful and well-connected individuals. One illustration of this is government-sanctioned licensing and control of much of the country's agricultural trade by these individuals. Coconuts, sugar, fertilizer and tobacco are the most important cases, but there are others. Another illustration is the bail-out operations of the early 1980s. It is no coincidence that several of the firms against which allegations of cronyism are most vociferous are those which were rescued in a massive government programme substituting public equity for outstanding arrears to the three government-owned banks. The effect of the bail-out operation has been to severely squeeze the existing loan operations of these banks and to create major cash-flow problems.[8]

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It is not surprising that bail-out operations and the debt problems (see following section) have surfaced in the early 1980s, a period of severe recession. During the 1970s, when the growth rate was quite respectable, public sector mismanagement and an adventurous strategy of overseas borrowings could be accommodated in the context of a growing economy. The cost of profligacy in the 1970s and before is amply illustrated by the current crisis.

Foreign debts. The most pressing economic problem is the country's debt repayment. The Philippines is not among the "big league" of Third World debtors, comprising mainly Latin American countries, although its debts as a proportion of GDP are the highest in non-communist Asia. Nevertheless, its position has been exacerbated by the massive capital flight (some estimates put the figure at US$60 million per month) in the wake of the political instability following the Aquino assassination on 21 August 1983.

In appraising the debt situation it needs to be emphasized, firstly, that there is nothing inherently undesirable in a strategy of increased foreign borrowing in the economic circumstances which the Philippines confronted in the 1970s, provided the funds are used productively and lenders do not impose unduly restrictive conditions. Like many other LDCs, the country was seriously affected by the unusual coincidence of high real interest rates, limited markets for its newly established manufacturing export industries, depressed commodity export prices, and a rapidly rising oil import bill. A policy of increased foreign borrowing to maintain the growth momentum and to attempt to ride out the difficulties of a dramatic deterioration in a country's terms of trade is not without merit.

The dimensions of Philippine foreign debt were revealed publicly only in the second half of 1983. The debt in January 1984 was estimated to be US$24.6 billion. Of this, about US$8 billion is classified as short-term and before August, was simply being rolled over through existing credit lines. A little over one-third of the amount is owed by the banking system (the Central Bank and commercial banks); most of the non-bank debt (US$11.1 billion out of US$15.8 billion) is in the public sector, reflecting the extensive government borrowing during and before the martial law years. The government's immediate problem is to obtain further credit just to meet its interest payments and the principal repayments on maturing short-term debt, because of the precarious level of its international reserves (about US$500 million, or less than the value of one month's imports during "normal" levels of economic activity) at the end of 1983. The government's initial response to the balance of payments crisis was a 21.4 per cent devaluation of the peso in October 1983, but in these extraordinary circumstances even a substantial fall in the value of the peso has little effect. In mid-October, a ninety-day moratorium on debt payments was agreed upon by the government, the International Monetary Fund (IMF), and the advisory group of twelve foreign banks. The moratorium has now been extended until April 1984, following delays in negotiations concerning the rescheduling of the payments, which were prompted in part by the revelation in

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late 1983 that the Central Bank had overstated the level of its international reserves by about US$600 million earlier in the year.

The government's short-term options, apart from outright repudiation of the debt, are extremely limited. It would seem inevitable that Philippine dependence on the IMF — however politically unpalatable and economically restrictive it is — is likely to be a fact of life throughout the 1980s. The IMF plays this pivotal role not only because of its own lending facilities, but also because other non-government lenders are unlikely to extend further credit without the assurance that the IMF will support the government. The immediate "performance criterion" demanded is control of the budget deficit, to 2 per cent of GNP in 1983, and 1.5 per cent in 1984. Nevertheless, the government is not without some bargaining power on the questions of debt rescheduling and the imposition of the performance criteria, because of the enormous exposure of major international banks to LDC debts and the need to avoid the international shock wave precipitated by a major debtor country actually defaulting.

The recent Philippine experience of foreign borrowing contains two fundamental yet simple lessons. The first is that such borrowings are likely to result in major economic dislocation if the funds are used in projects of doubtful economic viability. As we have seen, much of the public sector borrowings have fallen into this category. Secondly, the time profile of the debt is very important. In particular, countries with a significant proportion of short-term debts will be exceptionally vulnerable to sudden changes in the investors' perceptions of the government's stability.

Developments in Regional Perspective

How well has the Philippines performed compared to other developing countries? Table 7 provides information on a range of social and economic indicators for seven major developing countries of East Asia and for all low and middle income developing countries. Two main conclusions emerge from the data.

Firstly, the Philippines has been by far the worst performer among non-socialist countries in East Asia. In the two decades 1960–80, its growth rate has been only a little over half that of the (unweighted) average for the region as a whole. The Philippine economy has been on a steady downward slide relative to the neighbouring countries in the region for much of the post-independence era. Twenty years ago, its per capita income was second only to the city-states of Hong Kong and Singapore, and similar to that of Malaysia. By the early 1990s, if current growth rates are maintained, it will be the poorest member of ASEAN.

Secondly, however, on the basis of official figures its performance appears better if compared with all developing countries and other indicators of development. For example, the economy grew faster than the average for all low-income countries, and at a similar rate to middle-income countries, if the relatively advanced countries in this group are excluded. It has maintained relatively good achievements in social indicators, especially in relation to life expectancy and

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TABLE 7
PHILIPPINE DEVELOPMENT IN REGIONAL PERSPECTIVE

Country/Region	*GNP per capita 1981 US$*	*Av. annual growth in per capita GNP 1960–81 (%)*	*Life expectancy at birth 1981*	*Daily calorie supply per capita (as % of requirements) 1980*	*Adult literacy rate 1980 (%)*	*Primary school enrolments as % of age group 1980*
1. ASEAN						
Philippines	790	2.8	63	116	75	110
Indonesia	530	4.1	54	110	62	98
Malaysia	1,840	4.3	65	121	60	92
Singapore	5,240	7.4	72	134	83	107
Thailand	770	4.6	63	104	86	96
2. Northeast Asia						
South Korea	1,700	6.9	66	128	93	107
Hong Kong	5,100	6.9	75	128	90	109
3. Low-income countries	270	2.9	58	97	52	93
4. Middle-income countries	1,500	3.8	60	110	65	100

SOURCE: World Bank 1983.

education, though declines in real expenditure on health and education have been noted in recent years. Moreover, compared to East Asian developing countries, almost all countries have an inferior record. The performance of Hong Kong, Singapore, the Republic of Korea and Taiwan — the so-called "Gang of Four" — is virtually unparalleled, and it is unlikely that the experience of the city-states in particular can be replicated by the populous low-income countries (see Cline 1982). In the case of at least two ASEAN countries, Indonesia and Malaysia, their growth in the 1970s was fuelled by a strong resource sector. A fairer comparison in the international context would be to evaluate the Philippine performance in the light of recent developments in Thailand, an economy with many similarities. Both faced a similar deterioration in their terms of trade, are heavily dependent on imported oil to meet energy needs, have nearly equal populations and, despite growth in manufacturing exports in recent years, remain mainly primary goods exporters, and are similarly endowed with many natural resources.

Such a comparison shows that by almost any indicator, Thai economic performance has been superior to that of the Philippines (Table 8). In 1960, its per capita income was about half of the Philippines; in just two decades it has closed the gap. The Thai economy has registered faster growth rates in every major sector, the differences being particularly striking in the case of the industrial (and manufacturing) sector. Despite impressive growth in agriculture, manufacturing increased its share of GDP from 13 to 26 per cent, while agriculture's share fell from 40 to 25 per cent. It has also avoided major currency instabilities and debt problems, and has had lower inflation rates throughout the past two decades.

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TABLE 8
ECONOMIC INDICATORS, PHILIPPINES AND THAILAND

		Philippines	*Thailand*
GDP per capita 1982		$740	$750
Growth Rates (Average annual):			
GDP	1961–1970	5.1	8.4
	1970–1980	6.2	7.2
Agriculture	1961–1970	4.3	5.6
	1970–1980	4.9	4.5
Industry	1961–1970	6.0	11.9
	1970–1980	8.4	9.9
Manufacturing	1961–1970	6.7	11.4
	1970–1980	6.9	10.3
Services	1961–1970	5.2	9.1
	1970–1980	5.3	7.5
GDP (in millions of dollars)	1961	6,960	2,550
	1980	38,900	36,810
% of GDP — Agriculture	1961	26	40
	1980	23	24
Industry	1961	28	19
	1980	37	28
Manufacturing	1961	20	13
	1980	25	20
Gross Domestic Investment (Annual av. growth rate)	1961–1970	8.2	15.2
	1970–1980	10.1	7.5
Energy Imports as a % of merchandise exports —	1961	9	12
	1979	41	44
Annual Growth Rate of:			
Exports	1960–1970	2.2	5.2
	1970–1980	7.7	11.8
Imports	1960–1970	7.1	11.2
	1970–1980	2.6	4.9
Terms of Trade (1975 = 100)	1960	112	121
	1980	68	62
Debt service as % of:			
GNP	1970	1.4	0.6
	1981	2.3	1.7
Exports of goods & services	1970	7.5	3.4
	1981	9.9	6.7
Exports as % of GDP	1980	14.7	18.8
Land area		300,000 sq.km	514,000 sq.km
Land area under cultivation		37%	35%

SOURCE: For GDP per capita, see Oshima 1983; for others, World Bank 1983.

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Sharpe (1981) attributes the superior Thai performance almost entirely to natural and geographical factors, in particular to the greater arable land endowment. Certainly, the Philippines was reaching the end of its land frontier — at least in terms of fertile, easily cultivable land — in the more densely populated islands by the 1960s (Hooley and Ruttan 1969). In contrast, Thailand expanded its cultivated area enormously during the past two decades, particularly in the 1960s (Chapman 1984; Ingram 1971). The new land brought into cultivation enabled expanded production of both traditional and new crops very rapidly, with a strong export orientation.

This extension in cultivated land, however, was made feasible by extensive investments in roads and infrastructure, facilitated by U.S. military assistance during the Vietnam War. Another factor was the position of the Thai peasants in society and their access to uncultivated land which differed markedly from the situation in the Philippines. There was no extensive landlordism in Thailand, and uncultivated land had not been alienated to large landed interests or public institutions; Thai farmers had far greater freedom to open up new land and to respond to new market opportunities. Furthermore, the smallholder structure of their farming population also resulted in far more equitable and wider diffusion of the gains from growth of agriculture (Chapman 1984). As a food surplus country, the Thais were also able to maintain low domestic food prices, which helped to keep industrial wage rates low.

The available income distribution figures for the two countries are insufficient to permit a rigorous comparison. However, the evidence suggests that Thailand has a superior record in poverty alleviation. According to a World Bank study (World Bank 1980b), the proportion of the population living in poverty fell from over half in 1962 to less than one-third in 1975. Geissler and Miller (1982) have even argued that "60 per cent of the population of the Philippines fall below the poverty line whereas it is only 21 per cent in Thailand". Generally, there is a consensus that economic growth during the past two decades has alleviated poverty in Thailand while the situation probably worsened in the Philippines (Dowling 1983).

The greater endowment and the institutional differences in the farming sector were both factors for the rapid growth in agriculture in Thailand, but it must be noted that the Philippines has done better in improving yield and productivity levels in crops such as rice. In industry, arguably, the Philippines found it more difficult to overcome the problems it inherited from the earlier, strongly protectionist phase, whereas Thailand has enjoyed the benefits of being a latecomer to industrialization. There is no strong evidence that the trade regime in Thailand has been significantly more liberal than in the Philippines in the last decade or so. Effective protection rates in industry were comparable during the early 1970s (Akrasanee 1977); while agricultural taxation was higher in Thailand.

In general, overall pricing policies followed in the two countries appear to have been broadly similar. A recent World Bank study (World Bank 1983) shows that Thailand is only marginally different from the Philippines in the level of price distortions in the economy. However, the newly established Thai industries have

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shown greater capacity to develop an export orientation than those in the Philippines. The most significant difference is that the Philippines commenced industrialization earlier and pursued highly protectionist policies longer. It is worth noting that, in the early post-war years, the Thai Government opted for a policy of low tariffs, partly because it did not want to protect the predominantly Chinese-controlled industry (Akrasanee and Ajanant 1983).

More significant differences between the two countries emerge in some of the macro-economic policies. Thai exchange-rate policy has been far more liberal and, despite balance-of-payments difficulties, the baht has been a remarkably stable currency. During the past three decades, its rate to the U.S. dollar has varied only marginally. A strong and dependable currency, amongst other things, discourages capital flight — a problem all too familiar in the Philippines where substantial devaluations have been regular occurrences during the past two decades. Thai financial policies have traditionally been cautious and conservative; money supply has been tightly controlled and inflation rates have historically been very low (Ingram 1971). Even during the 1970s, Thai overseas borrowings were lower in comparison with the Philippines.

However, lower levels of borrowings and investment have not prevented the Thais from recording superior growth rates. Indeed, by and large, the efficiency of resource use and management in Thailand has been clearly superior. One admittedly crude indicator of this, the incremental output-capital ratio, has been significantly higher in the case of Thailand. Generally, they have avoided sinking large funds into "glamour projects" of the type which have recently been common in the Philippines.

At least partly, this better Thai performance is probably linked to the lower degree if "crony capitalism" in Thailand. Despite frequent changes in government — in contrast to the Philippines — it is arguable that economic management in Thailand has been less subjected to drastic changes in policies and direction and less influenced by the need to cater to the immediate economic interests of politically influential groups or individuals. As Oshima (1983) points out, "despite frequent military coups, the strength of the Thai monarchy . . . served as the rallying point for national unity and social cohesion". The monarchy and a core of technocrats have imparted a degree of continuity and consistency into both the political and economic spheres, but this is often obscured by the frequent changes in the composition of the government. Historic and cultural differences between the two countries, too, may have had a significant influence. It has been argued that Filipino entrepreneurs put more weight on personal factors than efficiency in industrial management and that they are "much more interested in windfall, short-term profits" (Oshima 1983). On the other hand, the ethnic Chinese entrepreneurs, who have been far better integrated into Thai society, may have brought more of the Confucian attitudes into economic activities, and developed a greater degree of economic dynamism in Thailand.

To sum up, the greater land endowment and the benefits of being a late-comer to industrialization have certainly been important factors in better Thai

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economic performance. However, the differences in other factors, particularly in economic management, are sufficiently important that it is difficult to avoid the conclusion that at least part of the explanation for the poorer Philippine performance lies in the policies and performance of the government itself.

Conclusion

In the mid-1970s, the World Bank (1976, p. 11) described the post-independence economic performance in the Philippines as "satisfactory . . . except that it provided no basis for self-sustained, long-term development". Events in the last decade render even this judgement somewhat generous. Until the early 1980s, economic performance was generally satisfactory: the growth rate was similar to that of other middle-income LDCs; and while the equity record was poor, it was no worse than that of many other countries and, in part, reflected deeply entrenched historical problems which could not be resolved easily. But serious difficulties emerged once the international recession strengthened. In restrospect, the moderately good economic record was partly due to an adventurous strategy of foreign borrowings.

Assuming that the immediate debt payment problems can be resolved, what are the economy's medium to long-term prospects? Even with a return to domestic political stability and international economic recovery, the debt situation will remain serious for the next few years, as a recent study by Cline (1983) — conducted before August 1983 — illustrates. One extreme option is a drastic swing to autarky, including repudiation of foreign debts. Such a course would be extremely hazardous. Only two countries — Cuba and North Korea — have repudiated in the past decade, and they are now effectively excluded from the Western financial system. And as these countries have found, this course runs the risk of confiscation of foreign assets. Moreover, the Philippines is heavily dependent on imported energy supplies, and many of its industries are highly import-intensive. A cessation of trade and capital flows, as the present disruption on a more minor scale indicates, would have catastrophic effects on domestic production.

The best option for future governments — of whatever political persuasion — would appear to be the achievement of a rescheduling of debt on the most favourable terms and the vigorous promotion of export growth. Future economic prospects are not necessarily as bleak as they currently appear to be. It is important not to lose sight of the fundamental resilience of the economy, as attested by the past record of performance in the face of adverse public-sector intervention. A carefully conceived export strategy can also promote efficient, equitable growth, as the experience of the Asian "Gang of Four" countries demonstrates. The Indonesian experience of the mid-1960s suggests that it is possible for countries to recover quite rapidly from a period of economic chaos. Indonesia was, of course, fortunate in that the resources boom occurred shortly after. But the most important missing element in the case of the Philippines now is domestic political stability and consensus. In the coming months the political scene will dictate economic

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fortunes to an extent which has never before occurred in post-independence Philippine history.

NOTES

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1. The estimates in Table 3 do not take into account a possible index number problem, which arises when a constant-weight import price index is used. However, the effect is unlikely to be great for this relatively short period, especially as the base year is in the middle of the period.
2. For example, in contrast to the oil import bill in recent years of around US$2.5 billion, remittances for 1982 were officially estimated to be over US$700 million. The inclusion of unofficial remittances could take this figure to close to US$1 billion, or as much as 40 per cent of total oil imports.
3. This diversification is illustrated for the 1970s by changes in the value of the Hirschmann index of trade concentration, which ranges from 100 (entire trade with one country) to 0. During the period 1972–81, the index showed a steady downward trend from 57.6 to 39.7.
4. The impact of such intervention has been amply documented. See Baldwin (1975), Bautista, Power and Associates (1979) and Power and Sicat (1971), all of which focus primarily on the manufacturing sector, and David (1982) on agriculture.
5. For example, the World Bank (1980a) estimated the percentage of families in poverty in 1975 to be 53.2, whereas the Social Indicators Project (cited in Mangahas and Barros 1979) concluded it was 80.
6. In fact, preliminary results from more recent, smaller surveys have been released. The data suggest a deterioration in income distribution since 1975. However, the surveys are not strictly comparable to the earlier ones, and for this reason the results must be interpreted with caution (see Dowling 1983).
7. For example, for the ten regional LDCs for which data are provided in the Far Eastern Economic Review's *Asia 1983 Yearbook*, the Philippines has the lowest share of defence expenditure in GNP.
8. For example, in the case of one of these banks, the Development Bank of the Philippines, it has recently been reported that approximately half of its estimated assets of P40 billion are regarded as "weak".

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Multinational Corporations and Industrialization in Southeast and East Asia*

BASU SHARMA

Introduction

Multinational corporations (MNCs) are global organizations with tremendous economic power. When a developing country accepts the presence of such powerful organizations, allowing their activities to be carried on within its territory, dangers of foreign domination of the economy and of the polity may arise. This apprehension is sometimes fuelled by critics of MNCs who argue that foreign direct investment (FDI) which comes with MNC activities promotes neo-colonialism and neo-imperialism.[1]

Despite such warnings, some developing countries have actively promoted FDI, and have still managed to use it in consonance with their national economic plans. Some of the striking cases in this respect are South Korea, Malaysia, the Philippines, Singapore, Taiwan, and Thailand, also called newly industrializing countries (NICs) of Asia.[2] It may be worth looking into why these countries are less vulnerable to MNC forces than some critics of MNCs would have us believe. To investigate this question, this paper examines the nature of the interplay of MNCs with the host governments, with specific reference to the industrialization process of the Asian NICs.

The paper is divided into four main sections. It begins with a brief look at the magnitude of the phenomenon of MNC activities, and proceeds to describe implications of the international division of labour. It, then, examines host country policies on FDI and industrialization in section two. In section three, an appraisal of the economies of the Asian NICs is presented. This is followed by a discussion on the future of international economic relations. The concluding section summarizes the arguments and analysis, and suggests implications of the study for public policy.

MNCs and the International Division of Labour

One of the aggregate indices of the spread of MNC activities over time is the change in the stock and flows of FDI. The FDI stock in the world was US$60 billion in 1960. It stood at US$190 billion in 1970. This further increased to US$500 billion by 1980. The less developed countries (LDCs) were hosts to 32 per cent of the total FDI in 1960. However, their share declined to 31 per cent by 1970, and to 27 per cent by 1980. The growth rates of FDI hosted by the LDCs and the more developed countries (MDCs) between 1970 and 1980 were 9.6 per cent for the former, and

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12.5 per cent for the latter.[3] The conclusion to be drawn from these figures is that activities of MNCs have been growing at a remarkably faster rate since 1960, but the spread has been more on the side of the MDCs than the LDCs.

However, there is more to what the figures suggest. While MNCs shunned many of the LDCs in the 1970s, they embraced some as very attractive places for their activities. The least developed countries as a group hosted very little FDI, while the NICs as a group hosted a disproportionately larger share. Therefore, one should also be aware of the distribution of FDI among LDCs.

The six Asian NICs which are the subject of this study were among the few countries favoured by MNCs. The spread of MNC activities in these countries has, therefore, been quite remarkable. This can be substantiated by looking at the statistics pertaining to the net inflows of FDI presented in Table 1.

TABLE 1
FOREIGN DIRECT INVESTMENT IN SIX NEWLY INDUSTRIALIZING COUNTRIES OF ASIA
(in million US $)

	1970	*1971*	*1972*	*1973*	*1974*	*1975*	*1976*	*1977*	*1978*	*1979*
South Korea	66	42	64	95	119	57	81	93	89	36
Malaysia	94	100	114	172	571	350	298	478	523	873
Philippines	-24	-1	-12	55	4	98	132	227	193	200
Singapore	93	116	191	387	597	611	651	335	517	815
Taiwan	61	51	27	62	82	34	71	51	114	126
Thailand	43	39	68	78	189	86	80	106	51	52

SOURCE: United Nations, *Handbook of International Trade and Development Statistics, 1980* (New York: United Nations Conference on Trade and Development, 1980). For Taiwan, Central Bank of China, *Balance of Payments* (Taipei: Central Bank of China), various issues.

The statistics show that Singapore had the largest share and Taiwan the smallest, for the period 1970–79. However, none hosted less than half a billion U.S. dollars of FDI during the 1970s. Again, some caution is necessary in interpreting these figures. Firstly, data on FDI for most of the LDCs vary from one source to another. Secondly, they do not reflect whether the figures refer to the amount committed or to the amount actually invested. In any case, these figures at least show that these Asian NICs hosted considerable amounts of FDI in the 1970s.

When a country or a region hosts this order of FDI, one may argue that the theoretical possibilities of "domination" and "intrusion" are there. And the intellectual root of the fear of the vulnerability of the host countries to MNC actions is in the assumption that developing countries are passive actors in international economic relations, subject to whatever the MNCs and their home governments do to them. The assumed passivity of the LDC governmental élites has sometimes been explained by some as a product of the international division of labour.

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Students of imperialism believe that the mode of production in the capitalist world system is characterized by the division, specialization, and subordination of tasks. For example, MDCs specialize in the production of finished market goods, while LDCs specialize in the production of raw materials. This division of labour on an international scale integrates the MDCs and LDCs into a single production structure. Put differently, the capitalist penetration polarizes the world system into metropolitan centres and peripheral satellites. It generates underdevelopment in the peripheral satellites by expropriating economic surplus, while it stimulates development in the metropolitan centres by appropriating that surplus.[4] And some people consider MNCs the organizational embodiment of transnational capitalism, acting in accord with the dictates of imperialism.[5]

Implicit in this analysis of the world capitalist system is the assumption that LDCs are passive receptacles of FDI. It also implies a continuous outflow of resources from LDCs to MDCs. If these assumptions are correct, then the process should leave no possibility for the economic growth of the LDCs. But this has not happened. The dependency framework was developed in response to these inadequacies of the analysis of the expansion of capitalism within the framework of the theory of imperialism.

The concept of dependency suggests "a situation in which the economy of certain countries is conditioned by the development and expansion of another economy in which the former is subjected".[6] Implicitly, or explicitly, the framework implies that exploitation, structural distortion, and suppression of autonomous policies in the peripheries will be the result of this international division of labour. And according to the proponents of dependency framework, FDI has become one, and will be one of the major factors for this predicament of the LDCs. What FDI by the MNCs does is to create enclaves which tend to be disintegrated from the national economies of the peripheral countries. Since it does not create linkages, it becomes a force for the disarticulation of these economies. Because of the close relationship between MNCs and imperialism, it is assumed that any development of the peripheries with the help of FDI tends to be dependent upon the economic situations in the centre countries.

However, this line of reasoning can be challenged. The linkage argument may not hold good at that level of generalization. MNCs may create linkages in some developing countries, and there is some evidence along that line. A case study of three MNC firms in the electronics industry operating in Singapore shows that these firms have created local linkages.[7] In addition, most of the arguments related to the dependency hypothesis were developed to describe and to analyse the Latin American societies and their economies. The extent of the applicability of this hypothesis to Asian societies and their economies may be quite limited as countries in these two regions differ in their social, cultural, and historical backgrounds.

Apart from the dispute about the validity of the dependency perspective, the hypothesis has at least indicated that there are possibilities for MNCs to act as "intrusive" forces in a host country to serve either their own corporate interest, or the political interest of their home country government.[8] The LDC governments

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are, therefore, justified in their apprehension about unchecked MNC activities in their countries. However, the degree of domination depends on how strong and how nationalistic the government in the country in question is. The stronger and more nationalistic the government, the less will be the power of the MNCs to dominate the economy and polity of the host country. The weaker and less nationalistic the government, the greater will be the power of the MNCs to dominate the polity and economy of the host country.

On the basis of public policies on FDI and on industrialization, the governments of the Asian NICs do not seem to be passive or weak as assumed by the dependency theorists. Rather, they appear to have been successful in bringing the activities of the MNCs in line with national policies. But one should take note that there are inter-country variations insofar as the will and power of the governments to derive benefits from MNCs are concerned. An examination of host-country policies on FDI and industrialization may bring home this point.

Host Country Policies on FDI and Industrialization

MNCs are assumed to be profit makers by design and other things only by default.[9] If so, host countries should create an appropriate "investment climate" so that MNCs can be lured into their countries. But if there are MNCs from different countries competing for a suitable place for FDI, the bargaining situation of the host countries changes. In this situation, host governments emerge as a powerful force to affect the investment process.[10] Elaborate policies to monitor and direct the activities of the MNCs in many LDCs today are precisely the result of this changing situation.

The governments of the Asian NICs have taken note of this changing environment with varying degrees of emphasis, and have formulated various policies on FDI accordingly. More relevant to the present purpose are policies on incentives and restrictions, a brief review of which is presented below. We start with the incentives.

Singapore passed the Export Expansion Incentives Act in 1967. Taiwan enacted the Statute for Encouragement of Investment in 1960, and revised it in 1965. Korea promulgated the Foreign Capital Inducement Law in 1960, and amended it in 1966. The broad features of these laws were similar: exemption from taxes on profits for five years, duty-free import of capital equipment, and relaxation of certain restrictions on the percentage of equity and profits to be repatriated.[11] Malaysia introduced the Pioneer Industries Ordinance in 1958. One of the important features of this Ordinance was that entirely export-oriented foreign firms were permitted to retain 100 per cent equity.[12] In Thailand, the Board of Investment, created in 1959, remained in force until 1973. Tax exemption on machinery constituted a major incentive.[13] The Philippine Government enacted the Investment Incentives Act in 1967, which provided tax exemption on profits for firms which invested in a needed or pioneer area.[14] The objective of all these regulations was to create a favourable climate for investment and to attract more FDI.

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These countries were successful to a large extent, and continued to provide investment incentives throughout the 1970s.

While the industrializing élites of these countries have offered incentives to foreign investors, they have also tried to check their activities. Three areas have come into sharp focus in this regard: ownership, control, and selectivity.

All the countries studied here have investment agencies to monitor the inflows of FDI, although there are variations in the effectiveness of these agencies. Some of these countries have specified legal requirements for the local share of equity. Malaysia wants a three-way split of ownership: 30 per cent by foreign interest, 30 per cent by *bumiputras* (indigenous Malays, or sons of the soil), and 40 per cent by other Malaysians. The Philippines requires 70 per cent local equity for most of the foreign investment projects. Favoured new entrants can start a project with 100 per cent equity, but they must dilute it within forty years. Korea and Thailand both require 50 per cent local ownership in non-priority industries.[15]

These investment agencies also define preferred and non-preferred areas for FDI, and use this criterion as a basis for the selection of investment projects. Chemicals and electronics are the most preferred industries in all the Southeast and East Asian countries. Other areas of preference vary from one country to another, depending upon the availability of raw materials, national policies for industrialization, and so on. For example, Thailand prefers FDI in pulp and paper industries, while Malaysia prefers industries related to rubber products. Precision instruments and machine tools are the top preferences of Singapore. The Philippines prefers foreign capital in industries related to wood products. Korea and Taiwan prefer FDI in metal production and transport equipment industries.

Selectivity of investment projects is a major trend in all the countries. This is probably a consequence of the awareness of the élites in these countries of the possible negative effects of unbridled FDI. Even the rulers who have been alleged to have established alliances with foreign capital interests seem to have been aware of the possible negative role FDI can play in the host countries. To quote President Marcos:

> In a sense, it is also a response to apprehension about foreign domination of our national economies, remembering as we do the unpleasant memories of unrestricted entry of foreign capital during the colonial era and noting the aggressive instincts of foreign investment when allowed to do or go as they please.[16]

While this awareness still looms large, the relevance and importance of FDI is acknowledged in the Southeast and East Asian countries. Nowhere are these matters so clearly recognized than in the industrialization policies of these countries.

The industrialization process in Thailand began with the implementation of the First Six-Year National Economic Development Plan, which started in 1961. The Plan was in accordance with the advice of the World Bank that the government reduce its economic activities and encourage a greater inflow of aid, loans, and

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FDI.[17] Generous incentives were provided to foreign investors under the new Industrial Investment Act of 1962. This Act was amended in 1965 and again in 1968. The Second Plan (1967–71) and the Third Plan (1971–76) recognized the need to integrate manufacturing with agriculture. FDI was expected to play an important role in the success of these plans. The National Executive Decree No. 22 of 18 October 1972, which was later replaced by the Investment Act of May 1977, had the aim of fostering a good investment climate. The first phase of Thailand's industrialization was directed towards import substitution. In the second phase, the emphasis has been on an export-oriented type of industrialization.

The Philippine Government adopted a host of policies on import and exchange controls in the period 1950–62. These policies were largely a deliberate strategy to promote industrialization, which was obviously of an import substitution type. However, the investment climate for FDI was generally not good. Foreign participation in the economy encountered many difficulties including restrictions on profit remittances, payment of royalties and capital repatriation. Nevertheless, desirable industries received differential treatment.[18]

The purpose of the Investment Incentives Act of 1967 was to define specific incentives for FDI as well as areas open to foreign investors, and to make FDI consistent with national development objectives. In addition, the government enacted the Export Incentives Act of 1970 to promote new export industries. This Act reflects a shift in policies from the import-substitution type of industrialization to export-oriented industrialization. These governmental policies received a positive response from foreign investors. The share of FDI in the total industrial investment rose from 24.8 per cent in 1968 to 54.9 per cent in 1974.[19] These figures adequately show the importance of FDI in the process of industrialization of the Philippines.

In Malaysia, there was a considerable amount of FDI in the extractive sector in the colonial period. After independence, the government aimed at developing the manufacturing sector. The First Malaysian Plan (1966–70) accorded a substantial role for FDI. The Investment Incentives Act was passed on 1 January 1968, and it was amended in 1972 and 1974. As Karunaratne and Abdullah have observed, the government policy fostering industrialization in post-independent Malaysia has incorporated both the provisions of a conducive investment climate and the selectivity of sector.[20] While the industrialization policies of the Malaysian Government emphasized the import-substitution type of industrialization at the beginning, the emphasis has shifted to the export-oriented type in the 1970s. The relevance of FDI has never been so much recognized as in this period. For example, in the Third Malaysian Plan (1976–80), about 60 per cent of total investment was expected to come from foreign sources, primarily FDI.[21]

Korea pursued an import-substitution industrialization policy during the 1950s. However, a chronic balance-of-payments deficit plagued the economy. The situation became so bad that by 1961 the country's exports were less than a quarter of its imports. Consequently, the government adopted export-oriented industrialization policies. The first two Five-Year Plans (1961–71) emphasized the expansion of labour-intensive manufactured exports. But this required a mobilization of

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resources for investment. The government revamped the tax administration and raised interest rates to mobilize internal resources. This was part of the package of the financial liberalization programme. In addition, it passed the Foreign Capital Promotion Act in 1966 to encourage inflows of FDI. A number of free trade zones were also created.[22] These policies and actions helped Korea to achieve remarkable success in export expansion. Korea focused on the development of heavy industries in the 1970s. A crucial factor for its success was the technology. An important role was assigned to foreign investors in this respect. And to attract more FDI, the government changed regulations and guidelines in 1973. Provisions for majority ownership or even 100 per cent ownership by foreign investors were some of the main features of these changes.[23]

Taiwan started with import substitution industrialization in the 1950s. A massive inflow of American foreign aid was the main source of investment in this period. But the U.S. aid was gradually phased out in the 1960s, and FDI began to pour into the country in its place. The import substitution type of industries reached a saturation point because of the limited domestic market. Therefore, the focus of the country's industrialization programme in the 1960s changed to export expansion. The government recognized the importance of FDI for this kind of industrialization, and various incentive schemes were introduced to attract it. Tax rebates on imported materials and establishment of a number of export processing zones were among such incentives.[24]

Singapore is a free trade centre, and had already developed a fairly modern industrial base towards the end of the 1950s. The city-state economy of Singapore is far more manageable than a large country with a lagging rural sector. Furthermore, Singapore has remained politically very stable over time which has helped to attract FDI. Singapore's industrialization effort started in 1960 with the establishment of the Economic Development Board which promoted FDI by means of a package of incentives. It started with the import-substitution type of industrialization, and quickly moved on to an export-promotion type. The government has been emphasizing the development of skill-intensive industries in the last several years.[25] In all these phases of industrialization in Singapore, FDI has played a very significant role.

From what has been said thus far, it appears that MNCs tend to embrace some of the LDCs as the attractive places for FDI. The Asian NICs have become such places, evident from the amount of FDI hosted by these countries. It also appears that the governmental élites of the Asian NICs have tried to make strategic use of FDI in the industrialization process of their countries. Indicative of this is the structure of investment incentives designed by these countries.

But the interplay of MNC objectives and the strategies of the host governments tend to be dynamic in the sense that the fear of government reprisals on the part of MNCs and the fear of divestment or "no investment" on the part of industrializing élites often work as equilibrating forces against each other. The position of a host country in this process depends very much upon how strong and tactful the government is. Given this view of the matter, it becomes more

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meaningful to analyse the relationship between MNCs and host governments in terms of the degree of dependence or interdependence, rather than solely in terms of "dependence".

If the concept of interdependence instead of "dependence" is utilized, then benefits of MNCs to host countries as well as benefits of FDI to MNCs can be thought of as rewards accruing to parties in an exchange relationship. Studies indicating high rates of return on FDI accruing to MNCs abound. In addition, empirical studies discovering a positive effect of FDI on output growth of host countries are too numerous to summarize here. However, an appraisal of the growth performance of the Asian NICs in the decade of the 1970s is presented. This is to elaborate on the theme that the Asian NICs have benefited in their exchange relationship with the MNCs.

An Appraisal of the Economies of the Asian NICs

From the point of view of economic growth, the six Asian NICs were already among the best performers in the decade of the 1960s. In the 1970s, few other countries could compete with their growth rates. Data on their growth rates of GDP and the manufacturing sector are presented in Tables 2 and 3.

TABLE 2
ANNUAL GROWTH RATES OF GDP IN SIX INDUSTRIALIZING ASIAN COUNTRIES, 1970–79

Country	*1970*	*1971*	*1972*	*1973*	*1974*	*1975*	*1976*	*1977*	*1978*	*1979*
Korea	8.5	9.5	6.1	15.1	7.8	8.0	13.0	10.3	11.3	7.1
Malaysia	5.5	6.2	9.4	11.7	8.3	0.8	11.1	7.5	7.5	8.1
Philippines	4.6	4.9	4.8	8.7	5.3	6.6	6.7	6.9	6.2	6.0
Singapore	13.7	12.5	13.4	11.5	6.3	4.1	7.5	8.1	8.6	9.4
Taiwan	10.9	11.5	11.9	12.0	0.6	3.1	11.8	8.4	13.4	7.8
Thailand	6.5	8.2	4.2	9.7	5.4	7.4	8.4	6.9	10.4	6.1

SOURCE: United Nations, Economic and Social Commission for Asia and the Pacific, *Statistical Yearbook for Asia and the Pacific 1980* (Bangkok, Thailand: ESCAP, 1981). For Taiwan, see Council for Economic Planning and Development, *Taiwan Statistical Data Book* (Executive Yuan, Republic of China: Council for Economic Planning and Development), various issues.

Thailand and the Philippines managed to get through the recession of 1974–75 without it seriously affecting their economic performance. During the period 1970–79, the average annual growth rate of GDP was 7.3 per cent for Thailand, and 6.1 per cent for the Philippines. Their manufacturing sectors grew at average annual rates of 11.2 and 7.4 per cent respectively. The services and agricultural sectors had average annual growth rates of 7.8 and 4.3 per cent respectively in

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TABLE 3
ANNUAL GROWTH RATES OF MANUFACTURING OUTPUT IN SIX INDUSTRIALIZING ASIAN COUNTRIES, 1970–79

Country	*1970*	*1971*	*1972*	*1973*	*1974*	*1975*	*1976*	*1977*	*78*	*1979*
Korea	19.9	18.8	14.0	29.2	15.8	12.6	22.6	14.4	20.7	9.8
Malaysia	12.1	11.7	10.2	22.5	10.4	3.0	18.5	10.6	14.0	12.0
Philippines	8.5	6.7	6.2	13.9	4.8	3.5	5.7	7.5	11.5	5.4
Singapore	21.2	18.7	16.8	16.2	3.8	–1.6	9.5	9.6	11.1	14.6
Taiwan	22.3	26.2	21.7	20.7	–5.1	3.3	25.8	10.6	18.9	9.0
Thailand	7.0	17.2	10.7	12.9	9.2	7.8	16.2	13.5	7.4	10.1

SOURCE: Ibid.

Thailand, and 6.5 and 4.9 per cent respectively in the Philippines. Malaysia had an average annual growth rate of GDP of 7.6 per cent. The manufacturing sector grew at an average annual rate of 12.5 per cent, the services sector at 8.1 per cent, and the agricultural sector at 4.6 per cent. These figures would be slightly higher if we exclude the year 1975, when the economy was hit hard by the recession.

Korea, Singapore, and Taiwan graduated from semi-industrialized status to newly industrialized status in the latter part of the 1970s. Between 1970 and 1979, their GDP grew at average annual rates of 9.7, 9.5 and 9.1 per cent respectively, and the manufacturing sector at average annual rates of 17.8, 12.0 and 15.3 per cent respectively. The services sector had growth rates of 10.2 per cent in Korea, 9.0 per cent in Singapore, and 6.9 per cent in Taiwan over the period 1970–79. Their agricultural sectors had rather low growth rates: 3.1 per cent in Korea, and 2.0 per cent in Taiwan, while the agricultural sector in Singapore was negligible.

It becomes evident that the growth rate of the manufacturing sector was invariably higher than that of other sectors in all these countries. What this means is that a rapid structural realignment in the sectoral shares of output in the total income took place in all these countries. The Southeast and East Asian countries in the 1970s earned enough qualifications for their economies to be considered as export-oriented ones. For political economists of the dependencia orientation, this is a sign of vulnerability from fluctuations in the economic situations of the more industrialized countries. This may be true to some extent. But an appraisal of these economies on the basis of this fact alone overlooks their dynamism and resilience, and therefore tends to be misleading as well as defeatist. Another aspect of these economies is the investment boom sustained over a long period of time. As Shinohara has pointed out, the sustained investment boom and the export-orientation have created "a virtuous circular pattern of accumulative expansion".[26] What he means is that export earnings lead to higher investments, which in turn further lead to higher exports. And we may remember that at the centre of this process is the dynamic role of finance, technology, and know-how which comes with FDI through MNCs.

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The Southeast and East Asian regions are considered to be the last frontier of fast growth in the two decades before the end of this century.[27] If the countries of these regions maintain their past records, their growth rates will be between 7 and 10 per cent per annum. At these rates, their GNPs will double in seven to ten years. If this process continues for four more decades, the initial income will increase about 16 to 60 times. If a group of countries has economic performance of this kind, one could well imagine how quickly the international pecking order of power and influence will be reshuffled. A consequence of such a reshuffling is an increase in frictions in international economic relations, the signs of which are already visible in the case of the NICs and the MDCs.

The Future of International Economic Relations

FDI by MNCs in the developing countries has almost moved out of the extractive sector in recent decades.[28] The mainstay has become the manufacturing sector with a small share going to the services sector. Within the manufacturing sector, just three industries — textiles, clothing, and electronics — have attracted the lion's share; and not by coincidence, exports of manufactures from the NICs to MDCs are also relatively concentrated in these three industries.[29]

There has been a growing concern over job loss or displacement problems under the impact of imports of manufactures from the NICs. Although these problems are not very alarming at the aggregate level as the imports constitute a tiny fraction of the MDCs' GNP, they are severe and dramatic at the micro-economic level, because the most seriously affected are the labour-intensive sectors of MDCs where workers tend to be relatively unskilled and immobile. Under these circumstances, the OECD (Organization for Economic Co-operation and Development) countries have been confronted with the problems of employment adjustment. They have either of the two choices available — retraining and relocation of displaced workers, or protectionism. Although these are disagreeable alternatives, the OECD countries seem to have opted in favour of protectionism.[30]

The protectionist policies of the MDCs will have some ominous consequences on the future of the rapidly industrializing Asian countries. However, there are alternative courses available for these countries to follow even if the MDCs decide to operate under a regime of autarky. In fact, not all exports of manufactures of the NICs have gone to the MDCs. According to UNCTAD (United Nations Conference on Trade and Development), over 30 per cent of the exports of manufactures from these countries went to other industrializing countries in 1975, and "intra-trade" in manufactures among these countries has been increasing faster than have their exports of manufactures to the MDCs.[31] The linkage between the semi-industrialized countries (SICs) and the NICs has also been increasing over time. The NICs have already been exporting their "taste of success" to other SICs, the would-be NICs.[32] It is no surprise to note that Singapore is the second largest foreign investor in Malaysia. Similarly, Taiwan already has a considerable amount of FDI in Thailand. In addition, there is the

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possibility of a vast market in China. If this occurs, an entirely new vista will open up.

The protectionist policies of the MDCs may further encourage regional co-operation among NICs, SICs, and other LDCs. The Association of Southeast Asian Nations (ASEAN) may serve as a pace-setter in this respect. If Japan, the third largest economy in the world, remains open, and if China, the sixth largest economy in the world becomes more open, the Asian SICs and NICs will continue to grow even with limited access to the MDC markets, though probably at a slightly lower rate.

Summary and Conclusion

The newly industrializing countries of Southeast and East Asia hosted a considerably large amount of FDI in the last decade. Evidence indicates that these countries had a superior economic performance in this period, so much so that some of these countries graduated to a new group called the "newly industrialized countries." Given the emphasis of the governments of the Asian NICs on the strategic use of FDI for industrialization, it appears that their success in industrialization was partly due to FDI. This result is but contrary to the tenet of mainstream dependency literature.

This paper has argued that the degree of vulnerability of host countries to the forces of MNCs is largely a function of the ability of host governments to make strategic use of FDI. And it is rather simplistic to attribute passivity indiscriminately to LDC governments in reference to international economic transactions between host LDCs and MNCs. Our analysis, at least, indicates that the governmental élites of the Asian NICs have not remained passive actors as such. Neither does it suggest that FDI was detrimental to the economic health of these countries.

Since the relationship between MNCs and the host governments of the Asian NICs does not seem to be what the dependency literature predicts, an alternative view of the process is suggested. This view emphasizes that the interplay of MNCs and host governments may be more meaningfully analysed by utilizing the concept of the degree of dependence, or interdependence.

The Asian NICs have been trying to re-define the structure of interdependence in relation to former Western colonial power through the diversification of sources of FDI and partners in international trade. They have been successful to some extent. However, the Japanese share on both counts (FDI and trade) has become disproportionately large in the last few years. This may resurrect the fear of their vulnerability to economic domination by Japan. One of the ways to neutralize the tilting balance, and the fear thereof, will be to encourage more investment and more trade among the NICs and the would-be NICs within the framework of wider regional co-operation. It is, therefore, advisable that the governmental élites of the Asian NICs discourage narrow economic nationalism in favour of wider regional co-operation.

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The Seremban By-Election of 19 November 1983 and its Implications for Malaysian Politics

CHEW HUAT HOCK

With an electorate of 60,899 in 1983, comprising 37,704 Chinese (61.9 per cent), 13,421 Malays (22.0 per cent), 9,453 Indians (15.5 per cent), and 821 Others (1.3 per cent), Seremban, the capital of the state of Negri Sembilan, may be considered one of the twenty-two Chinese-majority parliamentary constituencies in Peninsular Malaysia.[1] Notwithstanding the presence of a business and professional community concentrated in the vicinity of the town and its centre, the majority of the Seremban constituency's voters are poor. Many of them are small farmers, petty traders, wayside hawkers, manual labourers, shop assistants, rubber tappers, clerks, and such, residing in new villages such as Rahang and Rasah, or the rubber estates and rural areas such as Sungei Ujong and Terentang.[2]

Since 1959, when general elections were introduced in independent Malaya (Malaysia from 1963), Seremban has voted for the opposition in four out of six general elections. In 1959, Chin See Yin, a former Malaysian Chinese Association (MCA) member, contesting as an independent, won the seat. The MCA, however, recaptured it in 1964 when Quek Kai Dong was elected Member of Parliament (MP). In 1969, Dr Chen Man Hin, the National Chairman of the Democratic Action Party (DAP) defeated the MCA's Wong Seng Chow to win the seat, and retained it for the general elections in 1974 and 1978. Then Lee San Choon, the MCA President, in an unprecedented decision, contested in Seremban in the 1982 general elections. Had he not done so, the event might not have received the intense publicity that it did in the press. For the first time in the history of Malaysian general elections, the MCA President had decided to take on the DAP National Chairman in a Chinese-majority constituency. At stake was whether the Chinese electorate would continue to return the incumbent DAP National Chairman to office, fighting for Chinese rights via a "Malaysian Malaysia", or vote in the challenging MCA President who promised to effect Chinese rights within the Barisan Nasional (BN) government through "Chinese Unity". Thus, Seremban in 1982 symbolized the political contest between the DAP representing the opposition and the MCA representing the establishment. When the votes were counted on 22 April 1982, the Chinese-majority electorate had chosen the MCA.[3]

In what many observers would consider an anticlimax to his twenty-three-year political career, Lee San Choon then decided to retire from politics, giving up his federal (Transport) ministership (in March), the MCA presidency (in June), and finally his parliamentary seat (in October 1983).[4] The last development meant a by-election in Seremban, which was held on 19 November 1983.

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The United Malays National Organization (UMNO), as the most senior partner of the BN, had interpreted its landslide victory in the 1982 general elections as a massive mandate from the Malays, who formed the majority of the electorate, to implement many key policies which it had promulgated. Among the salient ones were the BN's official endorsement of the National Culture[5] at the first parliamentary session after the elections in October 1982, and several measures to give effect to the Islamization process in Malaysia.[6] These were in addition to approving the establishment of the International Islamic University. UMNO's justification was that its strong stance on Malay culture and Islamization had contributed to the heavy defeat of its rival, the Parti Islam Sa-Malaysia (PAS). The implementation of the interrelated National Culture and Islamization process unfortunately caused apprehension among the non-Malays — that is, the Chinese and the Indians who tended to interpret the implementation of such measures negatively. The Chinese memoranda to the Ministry of Culture, Youth & Sports and to the Prime Minister, protesting against the National Culture not giving credence and understanding to Chinese views in its formulation, were not heeded, and the reasons given were considered unsatisfactory.[7] For example, the Chinese felt that the restrictions imposed on the public performance of the lion dance, which can be regarded as a symbol of Chinese cultural pride, were too numerous and unnecessary. They were also disturbed that a national leader like the Deputy Prime Minister had questioned the loyalty of Malaysian Chinese by implication after twenty-five years of independence.[8] There were also economic aspects to the non-*bumiputra* dissatisfaction. The government had announced that it could possibly extend the New Economic Policy (NEP)[9] beyond the original target date of 1990, when it was envisaged that Malay ownership of the corporate sector would reach 30 per cent. Many development projects scheduled under the Fourth Malaysian Plan (FMP) could not be implemented with the slow-down in the national economy. Economic performance was also damaged by the loss of $2.5 billion by the Bumiputra Malaysia Finance (BMF) in irrecoverable loans to the Carrian corporate empire which had collapsed in Hong Kong.[10] This loss was made good with government funds in order to salvage the BMF, a Malay or *bumiputra* venture set up in the bid to improve Malay economic performance.

The DAP made no pretence of the fact that it was determined to wrest back the Seremban seat lost to the MCA in 1982. Historically, Seremban meant much to the DAP. The Rahang state constituency, which was part of Seremban, was the first seat won by the DAP through its National Chairman, Dr Chen, contesting as an independent in December 1965 while the party was still awaiting its registration, which was approved in March 1966. Thus, it may be said that the DAP regarded Rahang (and also Seremban) as its birthplace. The party's subsequent victories in Seremban in 1969, 1974 and 1978 through Dr Chen confirmed its claim to Seremban as one of its strongholds in Malaysia. Thus, Lee San Choon's 1982 victory greatly damaged the DAP's reputation especially as its National Chairman was defeated. At the highest level, the MCA, which had in the past been ridiculed by the DAP for its weakness in Chinese-majority constituencies, had humiliated

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the DAP. The Seremban by-election was seen by the DAP as an opportunity to redress this.

The MCA, on the other hand, appeared rather reluctant to face the DAP in a by-election in what it still considered a DAP stronghold despite its 1982 victory. Given Lee San Choon's slim margin of victory, it is possible that the MCA felt that it might not retain the seat by fielding another candidate of a lesser stature. The MCA had been defeated in two by-elections by protest votes at Kepayang (Perak) in October 1982 and Raub (Pahang) in June 1983.[11] The battle to retain Seremban was going to be extremely difficult for the MCA as the DAP was expected to field a strong candidate and its rhetoric was expected to be more fiery in Seremban than at Kepayang or Raub.

The MCA was faced with internal problems as well. Lee San Choon's resignation as MCA President in June 1983 had precipitated a power struggle within the party's top leadership. In brief, although Dr Neo Yee Pan was appointed Acting President, his power base was by no means consolidated. Factional rivalry at the national level inevitably permeated to the state levels. The Negri Sembilan MCA was affected by factionalism coalesced around groups led by Dr Neo Yee Pan and his challenger, Tan Koon Swan.[12]

Campaign Strategies

Although the official two-week campaign for the by-election was to be from 3 November until 18 November, unofficial campaigning in fact commenced very much earlier. In April 1983, Lim Kit Siang, in reference to Lee San Choon's resignation as Federal Minister the previous month, had attacked Lee for absconding from his duty to deliver his 1982 election pledges to the Chinese.[13] The DAP kept up this anti-MCA barrage at every opportunity: Lim Kit Siang, the DAP Secretary-General, chided Acting MCA President Dr Neo Yee Pan for being evasive to queries by the press as to the MCA's participation in the imminent by-election in Seremban.[14] He made press statements to the effect that although the DAP was favoured to win the Seremban by-election, the superior money and manpower resources of the BN/MCA were formidable obstacles.[15] The DAP hoped to lull the MCA into a false sense of complacency. At the same time, DAP members were induced to work hard, and strive for victory against seemingly unfavourable odds. In order to conserve as much of its limited financial and manpower resources as possible, the DAP kept away from the Tampin parliamentary by-election in late September 1983.[16] The DAP was also relieved that the Sarawak state elections originally scheduled to coincide with the Seremban by-election of 19 November, was subsequently postponed to late December 1983.[17] On 22 October, twelve days before nomination day, the DAP formally announced that its candidate for the Seremban by-election would be Dr Chen, confirming the MCA's expectations that its task to defend Seremban was going to be extremely difficult.

In selecting a candidate for the by-election, the MCA appeared hard pressed. Though it talked of recruiting new leaders following Lee San Choon's

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resignation as President in June 1983, there was as yet no indication of the choice of a candidate for the impending by-election. By late September 1983, shortly before Lee San Choon's resignation as MP, there was indication that four or five candidates were likely to be short-listed.[18] Eventually Rosie Tay, a Seremban Municipal Councillor and a former graduate teacher, was chosen, apparently based on her record in cultivating rapport with the residents of Seremban in the course of her political work. She appeared to be attending well to the problems faced by residents, such as applications for hawkers' licences, getting clogged drains cleared of rubbish, eradicating the mosquito menace, and so on.

The MCA, however, attempted to project a new cause in nominating Rosie Tay as a candidate — that of a fighter for women's rights. The MCA's move could be seen as a measure to divert some attention from the contentious issues of language and culture likely to be highlighted by the DAP, but Dr Neo Yee Pan argued that women were beginning to play an increasingly important role in politics, and hence Seremban, with a 49 per cent women electorate, could be better represented by a woman MP.[19] The MCA also calculated that the possibility of character-assassination on their woman candidate by the DAP would be less as she was not associated with any of the contentious issues that the DAP had raised.[20]

The official by-election campaign began on 3 November 1983. When nominations closed, it was to be a straight fight between the DAP represented by Dr Chen and the MCA represented by Rosie Tay.[21] Numerous posters, banners and billboards, not to mention the symbols of the political parties — the pair of weighing scales of the BN/MCA, and the rocket of the DAP — gave Seremban a carnival atmosphere.[22]

The DAP attempted to utilize its comparatively scarce manpower and monetary resources to maximum advantage. With political rallies banned and the mass media not likely to be able to feature their candidate extensively, the DAP organized numerous *ceramahs* in which numerous small exposures were used to offset the inability to reach out to large areas.[23] House-to-house visits were launched by the DAP campaigners who distributed pamphlets, and DAP cars or panel trucks with loudspeakers cruised about the town, new villages, rubber estates and rural areas. Giant DAP billboards with political cartoons and DAP "rocket" symbols were positioned at strategic places such as the market and the town bus station where they were in full view of large crowds of people.[24] In its campaign, the DAP attempted to project the by-election as an event encompassing national issues of grave concern to the Chinese. It published a booklet by Lim Kit Siang which discussed the several contentious issues already mentioned during the eighteen months that Lee San Choon was MP for Seremban.[25] These issues were highlighted and debated one at a time each day for the duration of the whole campaign to packed audiences.[26] The MCA, in supporting UMNO's endorsement of the National Culture which to many Chinese over-emphasized the Malay and Islamic elements, was made to appear as being opposed to the aspirations of Malaysian Chinese to have their culture incorporated as part of the National Culture. The DAP pointed to the cumbersome application procedures and the numerous restric-

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tions imposed by the police on the public performance of the lion dance,[27] and the disincentives to promote Chinese language and Chinese education, such as the rejection of the proposal to set up the Merdeka University.[28] The DAP highlighted the MCA's weakness *vis-á-vis* UMNO in the Cabinet, especially when the MCA had claimed that it was also involved in the BN's decision-making process. Lim Kit Siang claimed that UMNO had not been impressed by the MCA's 1982 general election performance; it had not increased the MCA's number of Cabinet ministers even though the MCA had publicly called for an increase. Not only had the MCA failed to get its previous key Cabinet portfolios such as Finance, and Commerce & Industry, but the MCA President's importance had been downgraded in that he had been given the MIC (Malaysian Indian Congress) President's previous portfolio of Transport instead in the new Cabinet reshuffle.[29]

To give greater effect to its campaign, the DAP attempted to personify the MCA's betrayal of Chinese rights in Lee San Choon and portrayed him as deserting the Chinese. The DAP's attacks on Lee San Choon culminated in his "mock trial" whereby he was invited to defend ten charges levelled at him.[30]

By contrast, the MCA attempted to depict the Seremban by-election as an event in which the transition from the older to the younger generation leaders assumed great significance. The MCA stressed on change with the infusion of new blood in the hope that the Chinese voters in Seremban would interpret Lee San Choon's resignation as an unselfish and honourable act. Trying his best to pacify what he expected to be an agitated Chinese electorate, Dr Neo Yee Pan explained that Lee San Choon was giving way to younger leaders to continue the MCA's long-term struggle to effect Chinese rights. Switching his attack on the DAP, Dr Neo Yee Pan stated that the nomination of an old leader meant that the party either lacked young talent or that its top leaders were selfish. The MCA President held that the main issue in the Seremban by-election was whether the electorate preferred a young, promising leader upholding the status of Chinese women in Parliament or an old, inefficient leader struggling to regain lost glory.[31] As far as the MCA was concerned, the electoral contest between the giants — a reference to Lee San Choon taking up the DAP challenge — had been decided in 1982 in the MCA's favour.[32] Rosie Tay, it was envisaged, could uphold women's rights in Parliament, as well as liaise effectively with the BN state government to continue with the implementation of development projects initiated by Lee San Choon during his eighteen months' tenure as MP,[33] whereas the DAP would not be able to deliver the goods to the Chinese. The MCA even depicted the DAP as lacking in undivided loyalty to the nation.[34]

The MCA questioned the DAP's sincerity in championing the cause of the Chinese. It pointed out that in its eighteen years of existence, the DAP had not or deliberately failed to understand the complex political, socio-economic, educational and cultural problems that the Chinese faced in a multiracial society with its numerous divisions and inequalities based on race, class, etc. The MCA contended that only through communal parties working in a continuous dialogue with one another, and based on consensus with a strong unified voice, such as the UMNO,

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MCA and MIC alliance, could the interests of the respective racial groups be protected.[35] The MCA stated that in defiance of this reality, the DAP had continuously sought to work up Chinese emotions and to agitate them to vent their dissatisfaction on the MCA.[36] The MCA thus concluded, that in the final analysis, the DAP weakened the MCA's "Chinese Unity" strategy to the extent that the former could not effectively bargain with UMNO, to the detriment of the Chinese.

In the MCA's campaign, its BN partners, UMNO and MIC, offered their assistance by organizing *ceremahs* and conducting house-to-house campaigns among the Malays and Indians. Given Seremban's 37.5 per cent non-Chinese minority, the MCA calculated that it might scrape through if the Malay and Indian voters were mobilized fully.[37] State and national UMNO leaders such as Deputy Prime Minister Musa Hitam[38] and the Mentri Besar of Negri Sembilan, Datuk Mohamad Isa,[39] stressed the importance of Sino-Malay co-operation and economic development to show that the DAP was antagonistic to the first and incapable of the second.

As the campaign intensified, it degenerated in some instances into what can be termed "ungentlemanly" conduct on the part of both parties. In their anxiety to cover as much ground as possible, it was inevitable that campaign workers from both parties would cross one another's paths. Throughout the campaign, the MCA's women's wing (WANITA) was very conspicuous in projecting itself as a fighter for women's rights — which led the DAP to make some rather sexist remarks.[40] However, no untoward serious incidents occurred as in the case of the alleged assault incident involving Dr Tan Tiong Hong, the Deputy Education Minister, in the Raub by-election.[41]

In the polemics that ensued, each side attempted to refute the charges levelled by the other while at the same time, launching counter-attacks. The MCA claimed that the DAP's mock trial of Lee San Choon had disgraced the Chinese community to the extent that the other races had lost respect for it.[42] In another instance, the MCA made an issue out of a political cartoon. It claimed that the DAP's original intentions in humiliating the MCA in fact degraded the entire Hainanese dialect group in Seremban.[43] The DAP in turn deflected the BN/MCA's charges that it could not bring about development to Seremban by stating that development was the responsibility of the ruling party. It said that the BN/MCA in implicitly threatening to cut off development to Seremban should the DAP win, had in fact sought to deny the electorate, who had dutifully paid their rates and taxes, their entitlement to improved amenities, and the right to vote out the ruling party if it did not discharge its responsibilities properly.[44] As to the need for another Chinese woman MP, the DAP noted that the performance of the MCA's sole woman MP, Rosemary Chong, who was a deputy minister, was not particularly outstanding.[45]

The Results

With an approximate voter turn-out of 70 per cent, Dr Chen polled 23, 987 votes to

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defeat Rosie Tay, who obtained 17,054 votes, by a majority of 6,393 votes.[46] The majority of the DAP's votes came from the Chinese, especially those from the lower-income groups. In view of the campaigning by the DAP's non-Chinese leaders and cadre in Malay and Indian areas, in addition to Dr Chen's popularity among the lower-income Malays and Indians,[47] it may be assumed that significant numbers of Malays and Indians voted for the DAP, although their number cannot be stated with accuracy. The MCA's Chinese votes came, to a considerable extent, from their 4,000 odd members in Seremban and their friends and relatives, who, in most cases, would be from the middle and higher-income groups. With UMNO's campaign, and that of the MIC, the proportion of Malay and Indian votes cast for the MCA could have been higher than that for the DAP. Though it is difficult to verify, it is possible that the MCA got more Malay and Indian votes, combined, than Chinese votes.[48]

Several factors led to the DAP's victory and conversely the MCA's defeat in the by-election. The DAP's organizing machinery for the campaign as a whole could be considered efficient and effective. Its manpower and monetary resources were utilized to achieve maximum benefit. Campaign workers from all over the country rendered their assistance voluntarily in distributing pamphlets, making numerous house-to-house visits, and organizing *ceremahs*. From time to time, the progress of the campaign was monitored at the party's operating centre. Based on feedback, new tactics were devised accordingly to achieve the desired results. With the party's two by-election victories at Kepayang and Raub, morale was high. This was sustained by the conspicuous presence of virtually all the party's top leaders in Seremban helping in the campaign which attracted large crowds. The choice of Dr Chen also appeared to have the unanimous support of the DAP rank and file. The DAP's aggressive campaign style based on the sustained harping of several issues in succession through fiery oratory proved highly effective. In putting the MCA to ridicule, this at the same time elevated the stature of DAP leaders as fearless critics of the BN government. In addition, DAP leaders identified themselves very much with the lower-income groups of all races.[49]

The MCA's organizing machinery, by comparison, was not as efficient as that of the DAP. Part of this could be due to the party's power struggle in Negri Sembilan. The choice of Loh Fook Yen from Johore as Director of Operations for the campaign displeased those who preferred a Negri Sembilan leader.[50] Although the MCA had more manpower and monetary resources than the DAP, and notwithstanding the fact that it could count on extra support from UMNO and the MIC, the resources could have been utilized more effectively. In addition, the MCA tended to disregard feedback which appeared unfavourable to the party although it might have been accurate.[51] The pro-BN mass media no doubt helped to encourage this kind of attitude by publishing only news favourable to the MCA.[52] Inaccurate feedback resulted in wrong and ineffective strategies being adopted. When they should have been wary, MCA campaign workers were instead lulled into a false sense of complacency. The MCA national leaders, unlike their DAP counterparts, were not conspicuous in Seremban; in most cases, they directed the

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campaign from Kuala Lumpur. This gave the Seremban electorate the sense that they were not interested in the by-election.

The two by-election defeats at Kepayang and Raub and the fact that an MCA unknown was contesting against a DAP strongman who had lost by a narrow margin to a former MCA President at the height of his popularity did not help MCA morale. In addition, contrary to the situation of Dr Chen who had the unanimous support of the DAP, Rosie Tay's candidature was opposed by many MCA branches in Negri Sembilan who felt that she was too inexperienced to speak on national issues raised by the DAP.[53] She rarely spoke on national issues, let alone women's rights at *ceramahs*, leaving them to other MCA/BN leaders. She based her campaign on her record as a municipal councillor. Thus, it was not surprising that many voters rated her nowhere near Dr Chen's stature. MCA *ceramahs* were in the main poorly attended despite the publicity that its national leaders would speak. Many MCA speakers also lacked the oratory style of the DAP speakers, which was instrumental in drawing crowds. The MCA was most of the time placed on the defensive to answer for matters of a national nature, such as the BMF case. The MCA's campaign style was also fragmented and lacked direction. It started off by attempting to make women's rights a major issue; before the campaign was half-way through, the MCA switched tactics and began to place emphasis on "Chinese Unity" in attacking the DAP; it then concentrated on the benefits of development. To the average Chinese voter, it was confusing as to what the MCA was fighting for since at times the DAP was able to point out that the fight for women's rights and "Chinese Unity" conflicted. It was also obvious that many male voters of all races were getting cynical over the MCA's campaign for women's rights and doubted whether it would be successful.[54]

Another reason for the MCA's failure could be that although UMNO was supportive in the campaign, it was not to the extent that the MCA expected. UMNO had concentrated on the Malay-majority state constituency of Terentang to mobilize at least 80 per cent of the 7,928 voters there, but only 4,708 (59.28 per cent) cast their votes on polling day.[55] Similarly, more than 2,000 Malay voters in Sungei Ujong did not vote.[56] Besides a rain shower which lasted about 45 minutes, the poor turn-out of Malay voters could be attributed to factionalism in the Negri Sembilan UMNO. The UMNO chief at Terentang on whom extensive mobilization of Malay votes there depended, had lost out to Datuk Mohamad Isa for the Mentri Besar's position. The cancellation of the Prime Minister's visit to Seremban on the second last day of the campaign might also have cost the MCA some Malay votes.[57]

Conclusion

The Seremban by-election victory represented the DAP's third consecutive victory in straight fights with the MCA eighteen months after the 1982 general election. Though it should be conceded that too much should not be read into the outcome of by-elections in which conditions usually differ from general elections, and in which the opposition could concentrate all its resources into a single constituency

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unlike general elections where their resources are dispersed in several areas, indications nevertheless point to a revival of the DAP, at least when compared to its demoralized position after the 1982 elections. The DAP now appears more confident of itself as a self-proclaimed champion of Chinese rights within the context of its professed multiracial policy. The results of the by-election would force the BN/MCA not to treat the DAP as a spent force in view of its poor performance in 1982. Its Seremban by-election victory, together with its two earlier victories at Kepayang and Raub, must necessarily imply that the MCA's victories in Seremban and other Chinese-majority constituencies in 1982 were indeed exceptional.

The MCA's claim of a "breakthrough" in Chinese-majority constituencies now appears doubtful. To understand this contention better, it is necessary to relate to the party's history.[58] When it was formed in 1949, the MCA's leaders, both local and China-born, had an "overseas-Chinese mentality", preferring to look after business interests, and accepted a secondary role to UMNO in politics. The MCA was faced with a dilemma. Being a Chinese party purportedly representing Chinese interests and at the same time a partner of UMNO in the Alliance (later BN) which meant that it had to support the pro-Malay policies of the government on the basis of collective responsibility, the MCA found itself caught in a vicious circle each time the aspirations of its Chinese constituents clashed with those of the Malays represented by UMNO. Nowhere was this more prevalent than in the government's pro-Malay policies on language, culture, and education.

The MCA found that the more it was obliged to support the government's pro-Malay policies, the less support it got from the Chinese. The smaller its Chinese base as a consequence of this, the less effective its bargaining power became in the inter-communal set-up of the Alliance/BN where electoral support was based on race.

The MCA leaders thus found themselves in power only because of UMNO support. On this basis, the MCA support base tended to be in Chinese areas with large Malay minorities or plural constituencies. It was obvious that in such areas MCA candidates were normally returned because of strong canvassing by UMNO to mobilize the Malay voters effectively. The MCA's strength had always been its access to government as a means of obtaining whatever concessions it could for the Chinese. The MCA leaders had felt that the party was ineffective in strongly Chinese-majority areas where opposition parties such as the DAP, by articulating Chinese interests, traditionally won, as was evident in the 1974 and 1978 general elections.

However, the situation started changing when Lee San Choon took over the MCA's presidency in 1974. In reorganizing the MCA, Lee was able to combine access to government, synonymous to delivering the goods, with measures which appeared to commit the MCA to the cause of Chinese language, culture, and education. Though such measures as the establishment of a feeder college, the Tunku Abdul Rahman College, to provide opportunities to the Chinese for tertiary education and a Chinese cultural centre, could hardly compare with the DAP's strong support for the Merdeka University and call for Chinese culture to be made

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part of the National Culture, they nevertheless indicated to the Chinese the MCA's stress on what was attainable within a multiracial society and the MCA's ability to effect this. With the consolidation of Lee San Choon's power in the MCA after the challenge from Michael Chen was stopped in 1979, the MCA had approached the 1982 general election with confidence. In an unprecedented decision to take on the DAP in the Chinese-majority constituencies, the MCA triumphed fighting under the banner of "Chinese Unity" although the DAP disarray and the positive effect of the Mahathir-Musa administration's measures, such as efficiency and trustworthiness in the battle against corruption, etc., were significant contributory factors. However, the interpretation of the BN victory as a massive Malay rather than a Chinese mandate hindered the MCA's demands for further concessions to the Chinese.

The MCA's first disappointment after the 1982 general election was its inability to get extra Cabinet seats although it had publicly demanded this, nor were the portfolios of Finance, and Commerce & Industry restored to it.[59] Instead, the MCA continued to hold on to its four relatively unimportant portfolios.[60] With UMNO's implementation of the National Culture and Islamization process, the MCA found its obligation of collective responsibility a liability in explaining its stand to its constituents.

The MCA's by-election defeat in Seremban is likely to intensify the power struggle within the party. The reasons for the power struggle and factionalism within the MCA are, however, not the subject of this paper. Nevertheless, the faction led by Tan Koon Swan would be likely to interpret the by-election defeat (together with the previous by-election defeat at Raub) as Dr Neo Yee Pan's inability to respond effectively to Chinese frustrations. They would use the by-election defeat to point out that should Dr Neo Yee Pan's leadership style remain unchanged, it was likely that the MCA would lose much of its support to the DAP in the next general election. Although the by-election defeat may not have been the main reason for the power struggle, it nevertheless may have led to its intensification. Tan Koon Swan gave definite indications that he was going to challenge Dr Neo Yee Pan for the MCA presidency in June 1984 when he stepped down from his position as Chairman and Managing Director (Operations) of Multi-Purpose Holdings Berhad (MPHB).[61] The persistence of his faction in calling for an extraordinary general meeting to thrash out the allegations of phantom members in the MCA led Dr Neo Yee Pan to expel him and thirteen leaders in his faction from the MCA in late March 1984.[62] The MCA thus became engulfed in a serious internal crisis with the concern and fear that the party might be split right in the middle among its members in particular, and the Chinese community in general. At the time of writing, the crisis is still on with both the factions showing no willingness to compromise despite appeals from MCA members and the Chinese community in general. As yet, its outcome is uncertain.

The DAP's Seremban by-election victory would also cause strains in UMNO's relations with its Chinese partners in the BN, especially the MCA. MCA radicals had expected that with the defeat of PAS in 1982, the moderate UMNO

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leadership would be greatly strengthened, and as such, it could afford to make concessions by effecting measures that could make the existing MCA position less untenable. In the interests of long-term stability in the BN, UMNO also has an obligation to see that its Chinese partners should not be rendered helpless by the erosion of their support by the DAP in circumstances beyond their control.

The moderate UMNO leadership, though presumably sympathetic to the MCA's plight, would nevertheless find it difficult to accommodate the latter fully. For one thing, it has to contend with counter-pressures from its youth wing which wields considerable influence within the party. UMNO Youth could interpret the DAP's Seremban by-election victory as a Chinese preference for chauvinism and an eventual collision course. Therefore, UMNO Youth would be likely to pressure the moderate UMNO leadership to be firm in implementing its policies. UMNO Youth has calculated that the MCA would never be satisfied with whatever concessions given to it, and by using the DAP threat as an excuse, would keep on demanding more concessions.[63] Faced with pressure from the MCA and counter-pressures from its youth wing, the moderate UMNO leadership is likely to find its role as an arbiter extremely difficult, especially with the possibility of PAS waiting in the wings to exploit any allegations that the moderate UMNO leadership had betrayed its pledges to the Malay mass.

NOTES AND REFERENCES

1. *New Straits Times*, 14 November 1983. The twenty-two Chinese-majority constituencies are based on the Election Commission's 1974 delineations. The number of Chinese-majority constituencies for Parliament has yet to be determined in the Commission's latest delineations gazetted in December 1983.
2. Rahang, Rasah, Sungei Ujong, and Terentang were the four state constituencies which made up the parliamentary seat of Seremban prior to the new constituency delineations gazetted in December 1983. The first two, predominantly Chinese, are held by the Democratic Action Party (DAP). Sungei Ujong, a plural constituency, is held by the Malaysian Chinese Association (MCA), while Terentang, a Malay-majority constituency, has a United Malays National Organization (UMNO) assemblyman. The UMNO, MCA, Malaysian Indian Congress (MIC), and the Gerakan Rakyat Malaysia (Gerakan) are members of the ruling Barisan Nasional (BN) coalition government at both federal and state levels. The DAP is in the opposition.
3. For the results of the 1982 general election, see *New Straits Times*, 24 April 1982. Lee San Choon polled 23, 258 votes while Dr Chen Man Hin polled 22,413 votes.
4. For the MCA's reasons on why he resigned, see *New Straits Times*, 26 March 1983. For the DAP's reasons, see Lim Kit Siang, "San Choon deserts", *The Rocket*, April 1983.
5. The guidelines on the National Culture were promulgated in the 1971 Congress on National Culture sponsored by the government. Its three principles are 1) the national culture would be based on the culture of the indigenous people of the region as its core; 2) appropriate and suitable elements from other cultural traditions could be accepted as elements of the national culture; and 3) Islam was to be an important element in the creation of the national culture. For further details, see *Memorandum on Culture*, Gerakan Rakyat Malaysia, July 1983.
6. For details, see Lim Kit Siang, "Islamization Process in the last 10 months" in *This Day in the Last 18 Months* (Kuala Lumpur: DAP, 1983), pp. 48 and 49. Among the measures were laws to punish

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non-Muslims for offences applicable only to Muslims, the intention to Islamize the banking system as well as the country's economic system, and a call for an Islamic education system from kindergarten to university level.

7. For details, see "Our Cultural Policy — Listen to World Opinion", *Gerakan Rakyat* 1, no. 2 (April 1983): 11. The United Chinese School Committee's Association of Malaysia (UCSCAM) had sent such a memorandum on behalf of the Chinese. The Ministry's standard reply was that the Prime Minister had already spelt out the National Culture.
8. Musa Hitam was referring to attacks by former Malaysian citizens of Chinese origin who had emigrated, on the BN's policies when he addressed the MCA General Assembly in Kuala Lumpur in October 1982.
9. The NEP's term was for 20 years, from 1970 to 1990.
10. For details, see Dr Tan Chee Khoon, "Without Fear or Favour: BMF: Let's have the whole story", *Star*, 26 October 1983; and Lim Kit Siang, *The BMF Scandal*, DAP Seremban By-Election Booklet, 1983.
11. The Kepayang by-election was held on 16 October 1982 with the resignation of DAP incumbent, Lim Cho Hock. The DAP polled 16,246 votes against the MCA's 6,482 votes. For details, see *Star*, 18 October 1982. The Raub by-election on 4 June 1983 arose from the death of the MCA incumbent. The DAP again defeated the MCA by 5,719 votes to 3,843. For details, see Chew Huat Hock, "The Raub by-Election and Chinese Politics in Rural Malaysia", *Asia Pacific Community* no. 22 (Fall, 1983): 48–61; and Dr Tan Chee Khoon, "Without Fear or Favour: The Battle for Bandar Raub", *Star*, 15 June 1983. Both Kepayang and Raub are Chinese-majority state constituencies.
12. Tan Koon Swan, one of the MCA's Vice-Presidents, is the MP for Damansara (Kuala Lumpur) and Chairman of MCA Federal Territory (Kuala Lumpur). However, he is more associated with the meteoric rise of the MCA's Multi-Purpose Holdings Bhd. (MPHB).
13. See Lim Kit Siang, "San Choon deserts", *The Rocket*, April 1983.
14. *New Straits Times*, 4 July 1983.
15. *New Straits Times*, 26 September 1983.
16. *New Straits Times*, 19 September 1983. This by-election, caused by the resignation of former Culture, Youth & Sports Minister, Datuk Mokhtar Hashim, who was convicted of a murder offence, was fought between UMNO and the Parti Islam Sa-Malaysia (PAS). UMNO won.
17. Gooi Hock Seng, the DAP MP for Bukit Bendera (Penang), who was closely associated with the DAP by-election campaign in Seremban, told this writer that the BN deliberately timed the Sarawak state elections to coincide with the Seremban by-election so as to overstretch the DAP's limited monetary and manpower resources to the point that they would become ineffective. According to Gooi, the postponement of the Sarawak state elections was due to disagreements between the BN component parties of Sarawak over seat allocations (interview with Gooi Hock Seng, 16 November 1983.)
18. *Star*, 19 September 1983.
19. *New Straits Times*, 14 and 15 November 1983.
20. *Star*, 16 November 1983.
21. Earlier, there was speculation that the Socialist Democratic Party (SDP), a splinter of the DAP, might put up its Secretary-General, Fan Yew Teng, a former DAP strongman, as a candidate (*Star*, 25 September 1983). However, on nomination day, only the DAP and MCA candidates filed their papers.
22. Personal observations.
23. Political rallies had been banned from the 1978 general election onwards. The government's reason was that communist terrorists might exploit them and cause a security threat. *Ceramahs* are, in essence, briefing or dialogue sessions. Compared to rallies, they accommodate very few people.
24. Personal observations.
25. Lim Kit Siang, *This Day in the Last 18 Months* (Kuala Lumpur: DAP, 1983).
26. Personal attendance at DAP *ceramah*.

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27. Public address by Lee Lam Thye, MP for Kuala Lumpur Bandar and Deputy Secretary-General, at DAP *ceramah* at Catholic Centre Hall, Seremban, on 18 November 1983. According to a Bukit Aman (Kuala Lumpur) police handquarters spokesman, any lion dance association wanting to hold performances must register itself with the Registrar of Societies before applying for a written permit from the police. Five copies of the application form must be sent to the respective district police office in addition to written evidence that the association had registered itself with the Registrar of Societies. The road, place, date and duration of the performance should be stated in the application forms which should be forwarded at least two weeks in advance. Kuala Lumpur Deputy CPO ACP Zakaria Chek stated that police permits would only be issued if certain conditions were complied with. Among these were that the performance should not have political party and/or child participants, should not be performed in areas where there were non-Chinese residents nor in areas near flats. In addition, the association concerned was not allowed to make house-to-house collections. For details, see *Star*, 19 and 21 January 1984.
28. DAP Seremban by-election pamphlet (in Mandarin). See also, Lim Kit Siang, "MCA opposes Merdeka U, supports Islamic U", *This Day in the Last 18 Months* (Kuala Lumpur: DAP, 1983).
29. Lim Kit Siang, "Political Breakthrough becomes a Political Letdown", ibid.
30. For details, see DAP pamphlet, "The 10 Political Charges against Lee San Choon".
31. *Star*, 12 November 1983; and *New Straits Times*, 5 November 1983.
32. *Star*, 2 November 1983.
33. *New Straits Times*, 16 November 1983. Among the development projects brought about by Lee San Choon were the $6 million Sungei Terip water supply plant serving the needs of Seremban and Port Dickson up to the year 2007; the $1 million Phase I flood alleviation project in Jalan Loop, Seremban; acquisition of land for a workshop site for $1 million; and the heavy industries site at Nilai.
34. *New Straits Times*, 16 November 1983.
35. *New Straits Times*, 3 October 1983.
36. *New Sunday Times*, 7 October 1983; and *Star*, 12 November 1983.
37. Based on a turn-out of 70 per cent, the MCA hoped to secure approximately 9,000 Chinese, 9,000 Malay and 4,000 Indian votes to scrape through as in the case of Lee San Choon in 1982. For this purpose, Negri Sembilan MCA leaders directed that the party's cars go to Malay areas and ferry as many Malay voters as possible to the polling stations on polling day. Chinese areas were avoided to prevent DAP supporters from making use of MCA cars to go to the polling stations to cast their votes. This information was revealed to the writer by an MCA campaign worker.
38. *New Straits Times*, 15 November 1983.
39. By-election address by Datuk Mohamad Isa, Mentri Besar of Negri Sembilan, at a BN lunch-time *ceramah*, 17 November 1983.
40. Interview with a DAP campaign worker. Personal observations at Seremban Central Market on 18 November 1983. The MCA had charged the DAP (by distorting the DAP's banner stating "The MCA is a slave to UMNO" to misinterpret it as "All Women are Slaves") with insulting women.
41. For details of the incident of Dr Tan Tiong Hong's alleged assault incident, see *New Straits Times*, 24 and 25 May 1983.
42. *Star*, 12 November 1983.
43. A DAP political cartoon on a giant billboard, positioned directly opposite the MCA operating centre and in full view of the crowds, showed the personification of the MCA into two vertical halves, with one half in Malay attire and the other half in Western attire. While the Malay audience in the cartoon which the figure was addressing applauded, the Chinese audience exclaimed in romanized Hainanese dialect to the effect that the figure was "neither human nor devil" (my own translation). The impression given was that the MCA had overplayed its subservience to UMNO to the extent that it was prepared to assimilate Malay culture while still claiming itself to be a Chinese party. The apparent reason that a Hainanese (and not any other dialect) caption was used was that the DAP campaign worker involved in drawing the cartoon was himself a Hainanese. The Seremban MCA saw in this poster an effective opportunity to hit back at the DAP. Given the

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occasional acrimony between Chinese dialect groups, the reasons for which do not concern us here, Hainanese members of the Seremban MCA wrote to the Chinese press calling on all Hainanese in Seremban not to vote for the DAP as it had ridiculed the Hainanese by making fun of their dialect. The DAP's original message was twisted to mean that the Hainanese were "neither devil nor human". Aware of the potential loss of substantial electoral support, Lim Kit Siang got a DAP Hainanese member to explain at the DAP's final *ceramah* on 18 November that the remark was not directed at the Hainanese but to show that the BN's language policy (which the MCA had supported) had downgraded the importance of the teaching of Mandarin to the extent that it had to be romanized in order to be understood. The DAP was nevertheless apologetic and Dr Chen personally replaced the Hainanese caption with the less sensitive English caption, "Double-faced, double-minded, double-tongued", amidst boos and jeers from MCA supporters present. It appears that only the Hainanese who were MCA members were offended, and the DAP's support among the Hainanese in this instance was not affected.

44. Interview with Gooi Hock Seng, 16 November 1983, and P. Patto, DAP Indian leader, 18 November 1983.
45. Public address by a DAP woman leader at a DAP *ceramah* on 18 November 1983 in Catholic Centre Hall, Seremban.
46. *New Straits Times*, 21 November 1983.
47. As a medical practitioner in Seremban, Dr Chen gives them free medical treatment when they cannot afford to pay. Interview with DAP Malay leader on 18 November 1983.
48. Refer to note 36.
49. It was observed that Lim Kit Siang, Dr Chen Man Hin, Lee Lam Thye and other DAP leaders were casually dressed and moved about in old cars/panel trucks or walked. DAP outstation campaign workers stayed at cheap hotels, and ate at roadside stalls. By contrast, MCA leaders travelled about in cars and entertained at expensive hotels after they had spoken at MCA *ceramahs*.
50. This information was given by a Negri Sembilan MCA leader.
51. Interview with Negri Sembilan MCA leader.
52. *New Straits Times*, and *Star* were particularly instrumental in this.
53. *Star*, 23 November 1983. It was reported that 15 out of 18 branches in Negri Sembilan did not support her candidature.
54. Interview with Gooi Hock Seng on 16 November 1983. Gooi maintained that this was a measure to divert the attention of the Chinese voters to the serious issues that the DAP had raised and the MCA had no answer. He cynically questioned why the MCA had in its 34 years of existence only now chosen to fight for women's rights.
55. *Star*, 23 November 1983.
56. Ibid.
57. Ibid.
58. For details, see R.K. Vasil, *Politics in a Plural Society: A Study of Non-communal Political Parties in West Malaysia* (Kuala Lumpur: Oxford University Press, 1971), chap. 1.
59. The MCA hoped to get 5 Ministers, 6 Deputy Ministers and 4 Parliamentary Secretaries in the new Cabinet as against its position of 4–5–1 in the Cabinet prior to 1982; *Straits Times*, 29 April 1982.
60. Currently, they are Transport, Health, Local Government, and Labour & Manpower.
61. Tan Koon Swan was succeeded by Lee San Choon, the former MCA President.
62. For details of the MCA crisis and its background, see *New Straits Times*, *Star*, and *Straits Times*, various issues between January-April 1984.
63. For example, UMNO Youth was publicly and vehemently opposed to an MCA resolution demanding for a second Deputy Prime Minister who would be a Chinese. The resolution was one of a number adopted by the Selangor MCA Convention without debate. For details, see *Straits Times*, 1 September 1981.

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ASEAN Security for the 1980s: The Case for a Revitalized ZOPFAN*

JOHAN SARAVANAMUTTU

Introduction

The purpose of this paper is to explore the prospects and possibility for the revitalization of the concept of "a zone of peace, freedom and neutrality (ZOPFAN)", the centrepiece of the Association of Southeast Asian Nation's (ASEAN's) foreign policy for most of the decade of the 1970s. Towards the end of that decade, however, the idea of ZOPFAN began to face a mounting number of obstacles and difficulties emanating from the external and internal political environment of the region. Nevertheless, it is the belief of this writer that the ZOPFAN idea may still be salvaged in a systematic and pragmatic manner as a broad foreign policy strategy for the security of the Southeast Asian region in the 1980s. This paper will examine some of the most important and necessary — if not sufficient — conditions for the revitalization of ZOPFAN as an effective ASEAN foreign policy. First, it will trace the evolution of the ZOPFAN proposal, followed by an assessment of its political fortunes as an external, or extra-ASEAN policy, as well as its pursuance as an intra-ASEAN policy with its concomitant obligations for members. Finally, it will propound and examine the measures necessary for a revitalization of the concept.

From Neutralization to ZOPFAN

The idea of the neutralization of Southeast Asia was first proposed by Malaysia's Tun Dr Ismail Abdul Rahman in 1968 when he put forward his "Peace Plan". Tun Dr Ismail was then a parliamentary backbencher; he had retired from the Cabinet as Foreign Minister six months earlier. (He later became Deputy Prime Minister in Tun Abdul Razak's government). The Ismail Peace Plan called for the neutralization of Southeast Asia to be guaranteed by the big powers, including China, and the signing of non-aggression treaties among Southeast Asian states. In a speech to the Dewan Rakyat in January 1968, he proclaimed the time as being "ripe" for a collective declaration from the ASEAN countries of the neutralization of Southeast Asia. However,

> to be effective, this must be guaranteed by the big powers, including Communist China. Second, it is time that the countries of Southeast Asia signed non-aggression treaties with one another. Now is the time for the countries in Southeast Asia to declare a policy of co-existence in the sense that the countries . . .

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> should not interfere in the internal affairs of each other and to accept whatever form of government a country chooses to elect or adopt. . . . The alternative to the neutralization of Southeast Asia guaranteed by the big powers . . . is an open invitation by the region to the current big powers to make it a pawn in big power politics. The alternative to the signing of non-aggression treaties among the countries in the region is an arms race among themselves which would be detrimental to their economy. The alternative to the declaration of the policy of co-existence is increased tension and subversion in the region.[1]

The essential idea was subsequently adopted by the government of Tun Abdul Razak who converted it into a proposal for "a zone of peace, freedom and neutrality" in 1970. This scheme was later elaborated by government theoretician Tan Sri Ghazali Shafie in an article which dealt with what was termed ZOPFAN's two levels of implementation.[2] At one level, the Southeast Asian states must themselves firstly espouse non-aggression principles based on mutual respect for sovereignty and territorial integrity, and secondly, devise ways and means to ensure peace and security among themselves. At the other level, the United States, the Soviet Union, and China were specifically named as prospective guarantors for ensuring that Southeast Asia be excluded as an arena for their conflict and power ambitions. As great powers, it was hoped they would also devise the supervisory means for maintaining Southeast Asia's neutrality.

This ambitious proposal was subsequently watered down by Ghazali Shafie himself to something he called a "neutrality system", which obviated the need for major power guarantee and incorporated the Indonesia-inspired notions of national and regional resilience coupled with the observance of equidistance *vis-á-vis* the major powers.[3]

The ZOPFAN proposal was endorsed by the ASEAN states at the Kuala Lumpur Declaration of 1971. It has by no means been an unqualified success but neither has it been an unmitigated failure. The reality probably lies somewhere between the two. Certainly, ZOPFAN has served as an effective diplomatic device for Malaysia and some ASEAN states to maintain a foreign policy posture of neutrality as well as a limited strategy to gain a measure of external security and to ward off excessive major power influence. Most notably, ZOPFAN has allowed a country like Indonesia, with its strong tradition of non-alignment, to maintain a neutralist line in foreign policy despite strong economic ties with the West in the post-Sukarno era. Veteran politician and former Foreign Minister Adam Malik, for example, has recently called for an ASEAN region free of nuclear arms which, he asserted, was in keeping with the Kuala Lumpur Declaration.[4]

In the early 1970s, Malaysia assiduously promoted the ZOPFAN scheme and gained a measure of support for it at such forums as the Lusaka Non-aligned Nations Conference (1970), the Commemorative Session of the 25th Anniversary of the United Nations (1970), and at the Commonwealth Conference in Singapore in 1971. By 1974, Malaysia had established diplomatic relations with the People's Republic of China, and also won its support for ZOPFAN. The United States, however, has remained silent on the scheme while the Soviet Union clearly does not

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favour it. In 1968, President Brezhnev proposed the Soviet's solution to the problem of neutrality and non-alignment and non-interference for the region in the form of the Asian Collective Security System. It was a vague scheme but in essence consisted of "friendship treaties" with potential Soviet allies and those predisposed towards the Soviet Union.[5]

Notwithstanding the lukewarm response to ZOPFAN even by ASEAN members such as Singapore, which is said to prefer a balance of power system in the region, Malaysian Foreign Ministry officials were widely known to have prepared a supposed "blueprint" for the scheme by about mid-1975.[6] Whether this came partially to fruition by way of the Bali accords of 1976 is not entirely clear, but the two major documents of the Declaration of ASEAN Concord and the Treaty of Amity and Co-operation signed at Bali definitely fell short of the neutralization of the ASEAN states, much less of the region. Nevertheless, the two accords carried the ASEAN states far beyond the 1967 Bangkok Declaration to a new stage of political and security consensus which augured well for ZOPFAN. In particular, the Treaty of Amity and Co-operation, which is open to accession by other Southeast Asian states, was very much in the spirit of the non-aggression pacts suggested in the Ismail Peace Plan. Thus, in the pursuit of "perpetual peace, everlasting amity and co-operation", the contracting parties agreed to be guided by the principles of

1. Mutual respect for the independence, sovereignty, equality, territorial integrity and national identity of all nations.
2. The right of every state to lead its national existence free from external interference, subversion or coercion.
3. Non-interference in the internal affairs of one another.
4. Settlement of differences or disputes by peaceful means.
5. Renunciation of the threat or use of force.
6. Effective co-operation among themselves.

(Article 2)

More importantly, the parties to the treaty agreed to formal procedures for the pacific settlement of conflict through the workings of a High Council comprising ministerial-level representatives, as provided for in Chapter 4 of the agreement. The provisions have never been tested nor are they by any means watertight since parties to a dispute are not bound to accept the results of conciliation. However, considering that the High Council would comprise parties to a dispute, the ASEAN procedures are likely to be superior to third-party mediation, or adjudication by the International Court of Justice. It is well acknowledged that the Sabah claim looms large over the ASEAN pacific settlement provisions and may indeed have been a factor in watering them down. All told, the treaty still stands as an outstanding collective inter-governmental effort initiated and achieved by the Southeast Asian states themselves on security co-operation. The open-ended accession clause to the treaty is evidently an oblique overture to the Indochina states and Burma to participate at some future date.

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If Bali was the high point of moves towards the attainment of ZOPFAN, it did not take long before its fortunes encountered a severe setback. At the non-aligned nations conference in Colombo that same year, Laos, backed by Vietnam, blocked Malaysia's attempt to seek a reaffirmation of the Kuala Lumpur Declaration. The Laotians argued that:

> The K.L. Declaration was issued at the same time when the U.S. was intensifying their war of aggression in Indochina in order to cover up the participation of ASEAN countries in the U.S. war of aggression in Laos, Vietnam and Cambodia and to fool world opinion into thinking that ASEAN countries had good intentions.[7]

The Laotian broadside may have surprised the Malaysians in view of the fact that the Vietnamese Deputy Foreign Minister Phan Hien had just concluded a diplomatic swing through the ASEAN capital cities to relay an apparently new conciliatory attitude of Vietnam towards ASEAN. Indeed, he was received warmly in Malaysia where he reportedly supported the ZOPFAN idea and even hinted at the Socialist Republic of Vietnam's possible entry into ASEAN.[8] The Indochinese counter-proposal of a ZOGIPAN (zone of genuine independence, peace and neutrality) at about this time indicated that they had not yet irrevocably rejected ASEAN and its gestures of goodwill. However, by 1978, in spite of a tour of the ASEAN countries by Vietnamese Prime Minister Pham Van Dong, bearing offers to sign treaties of friendship and non-aggression, Vietnam had moved decidedly Eastwards by joining COMECON (a communist organization, the Council for Mutual Economic Aid) in June and by signing in November its twenty-year Friendship Treaty — for all intents and purposes, a political alliance — with the Soviet Union. By the year's end, Vietnam had invaded Kampuchea and helped install the Heng Samrin government. The Vietnamese boat refugees were now fleeing by the thousands into the region, placing great strain on the ASEAN countries which provided them with temporary refuge.

It is undeniable that the Indochina developments have dealt a mortal — some would suggest, fatal — blow to the ZOPFAN idea. There was only one serious but ineffectual foreign policy attempt to tackle the Indochina events from a ZOPFAN perspective by ASEAN leaders, namely, by way of the so-called Kuantan Doctrine of 1980. Meeting in March at that Malaysian town, President Suharto of Indonesia and Prime Minister Hussein Onn of Malaysia called upon Vietnam to move into a position of neutrality *vis-á-vis* China and the Soviet Union. The proposal essentially represented a bilateral initiative on the part of Indonesia and Malaysia to attempt to break the diplomatic impasse over Kampuchea. While this move was commendable, the position of the other ASEAN states — particularly Singapore and Thailand — of maintaining pressure on Vietnam was apparently vindicated by a Vietnamese incursion into Thailand on the eve of the ASEAN Foreign Ministers' Meeting on 23 June 1980. The Kuantan Doctrine was thus laid to rest stillborn. The ASEAN foreign ministers went on to

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> strongly reaffirm the solidarity of ASEAN member countries in, and their continued total commitment to, their position on the Kampuchea conflict, particularly on the fundamental issues of total withdrawal of Vietnamese forces from Kampuchea, the exercise of the right of self-determination of the Kampuchean people, free from outside interference, subversion and coercion and non-interference in the internal affairs of the states of Southeast Asia.[9]

Whither ZOPFAN?

Thus, the pursuance of ZOPFAN as an extra-ASEAN policy has not proceeded far beyond its conceptual terms. The grudging acceptance of various international forums of its principles and the verbal support of one major power are all that ASEAN can boast of by way of success. Worse still, the scheme, as we noted earlier, may become crippled by recent events for at.least three ostensible reasons. Firstly, ASEAN may be considered foolish to persist in such a policy in the face of Indochinese hostility and bellicosity indicated by the Kampuchean and refugee crises. Secondly, in view of ASEAN's position on Kampuchea and Vietnam's open flouting of ZOPFAN principles, as ASEAN sees it, the concept may simply become moribund by the force of events. Finally, the developments in the Indochina region have caused a major shift in alignment among the big powers, and further affected the political and military alignment of the regional countries with these powers. The Soviet Union is now the major "prop" in terms of ideology and aid to Vietnam, which in turn has great influence over Laos and the People's Republic of Kampuchea. The United States, China and Japan, on the other hand, have given their support to the ASEAN countries, which together are now committed to upholding "Democratic Kampuchea". (We assume here the existence of two *de facto* Kampuchean governments, the *de jure* status of which remains contentious.)

As an intra-ASEAN policy, ZOPFAN remains intact, although little progress has been made since the Bali summit. The establishment of the ASEAN Permanent Secretariat as an administrative rather than as a decision-making tier of the inter-governmental machinery adds but a modicum of progress towards genuine supranational co-operation among the five member countries. Improvements in the implied domestic concomitants of ZOPFAN, such as in increased national resilience, self-reliance, social justice and general living standards of the ASEAN peoples continue to be meagre and uneven. The contention that ZOPFAN as an extra-ASEAN policy has become moribund, is based on the assumption that the developments in Indochina are irreversible; yet the validity of this assumption is questionable.

It would appear that if the ASEAN governments still wish to persevere in the quest for ZOPFAN in the 1980s and beyond, they may need to mount a salvage operation of sorts on the external front and a concerted plan of action on the intra-ASEAN level. In the following section, some suggestions are made for directions and measures in working towards a revitalization of the ZOPFAN proposal.

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Towards Revitalization

The broad starting point for a revitalized ZOPFAN could be the promotion of the Indonesia-inspired notion of "resilience" along the lines suggested by one of ZOPFAN's committed advocates, the late Tun Abdul Razak:

> The premise of the neutralisation proposal is regional and national resilience. Southeast Asia must stand on its own feet. We — individual countries as well as the region as a whole — must be self-reliant if we wish to survive. . . . The best defence lies in the people themselves — in their commitment, their will and capacity. This is the premise of the neutrality system. . . . It is premised on friendship and goodwill, on an open-minded readiness to co-operate, and patience and perseverance in working out detailed arrangements — and equally on national resilience, on our readiness to fight and defend our values and way of life. . . . The key to our future stability lies not in outdated and irrelevant attitudes of the Cold War, but in imaginative and constructive response to the new realities of today.[10]

On resilience, it has been further explained by the Indonesians that "national security lies not in military alliances but in self-reliance deriving from domestic factors such as economic and social development, political stability and a sense of nationalism".[11]

However, before one can realistically work out detailed arrangements based on the lofty principle of resilience, one has to clearly identify from time to time the major sources of threat to the region which ZOPFAN can hopefully nullify or neutralize. In the post-Vietnam War era, there appears to be two chief sources of threat to the security of the region — major power expansion and maintenance of the *status quo*, and regional power expansion. There are both political and economic dimensions to such expansionism but in this paper, I shall confine myself to the former.

The major powers actively involved in the region include the United States, the Soviet Union, China, and Japan. In terms of security interests, those of the United States and Japan may be taken to be roughly synonymous. Both these powers would be prepared to accept a preservation of the *status quo post bellum* (that is, the situation at post-Vietnam War). The Nixon Doctrine of 1969 had implicitly accepted the loss of Vietnam. Thus, for the United States and its ally, Japan, maintenance of the status quo is presently more important than further political expansion. However, a new complication to such a position is Japanese Prime Minister Yasuhiro Nakasone's recent announcement of extending the defence of commercial sea lanes up to 1,000 nautical miles from Japan's shores.[12] To the Southeast Asian governments, this is suspected as an expansionist move on the part of an U.S. ally, despite it being justified as a measure to counteract an augmented Soviet naval presence in the region, with its base facilities at Cam Ranh Bay.

The Soviet Union has become the most visible source of perceived threat in the

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region, considering its undeniable political and military expansion in Indochina at the expense of its two major rivals, China and the United States. Hitherto an unknown quantity, at least within the region, the new Soviet presence has relegated the "Chinese threat" to backstage, if it has not indeed driven it, curiously, in the direction of a frontal political alignment with the non-communist ASEAN five. Had the Pol Pot regime retained power in Cambodia, China might have remained more than a dormant threat to ASEAN, given its support, even if only moral, to communist guerrillas active in the ASEAN states. Presently, China represents the chief source of expansionist threat to Vietnam, with which it has already gone to war in 1979, and to Heng Samrin's Kampuchea which it seeks to topple.

Sources of regional power expansion have emanated largely from Vietnam. Vietnam's invasion of Kampuchea and the continued occupation of reportedly 180,000 Vietnamese troops, even if temporary, is an expansionary move of direct and indirect threat to Thailand which has suffered the burden of war refugees and territorial incursions. Indonesia's less publicized invasion and take-over of the former Portuguese East Timor since 1975 has worried at least one Pacific country — Australia. It has, however, had no repercussions on ASEAN stability. Other intra-regional threats to security such as the Pattani and Moro separatist movements in Thailand and the Philippines respectively are recognized and are being contained as "internal security" matters without much challenge from regional actors.

From the foregoing, it is evident that, at least at the level of external policy, the pursuance of a revitalized ZOPFAN by Southeast Asian states must logically follow the path of disengagement from major power involvements and conflagrations. However, the trend of events since 1975 has been in the opposite direction, namely, increased involvement of the Southeast Asian states with outside powers in new power alliances and political alignments which have fuelled big power expansionism and ambitions further. While such balance-of-power politics may ensure temporary political stand-offs and some stability, it is no answer to the long-term security interests of the region. If regional resilience and self-reliance is to be the basis of a revitalized ZOPFAN, Southeast Asian states cannot afford now or in the future to engage wittingly or unwittingly in major power politics nor be surrogates for their power ambitions. Presently, ASEAN's continued reliance on the United States, Japan, and even China is as untenable as the Indochinese states' dependence on the Russians. The logical means to check the sources of direct and indirect threat to the region is through a policy of equidistance and non-alignment, demonstrated *par excellence* by non-ASEAN, non-Indochinese, Burma.

For the ASEAN states, the revitalization of ZOPFAN has to begin with genuine efforts to distance themselves from the big powers. A corollary of such a policy would be to set a timetable to make good the 1967 Bangkok Declaration affirmation that all foreign bases in the region are temporary. Practically, this would entail the eventual dismantling of the U.S. bases of Clark Airfield and Subic Bay in the Philippines and the Five-Power Defence Arrangement's Australian Air Force base at Butterworth, Malaysia. It is interesting to note that under the Carter

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Administration, the U.S. Ambassador to Malaysia, Francis Underhill, was supposed to have advised the President that the Philippine bases were no longer vital, in the face of various demands by the Marcos government. However, Carter subsequently signed an agreement with Marcos in January 1979 promising a US$500 million military aid package up till 1984. Since April 1983, U.S. and Philippine authorities have begun the first five-year review of the bases, but critics point out that the talks are really aimed at exploring ways to extend the U.S. lease of the bases beyond 1991, the present expiry date.[13] As for the Australian Air Force base in Malaysia, steps to wind down Australian presence have already been under way, with the withdrawal of one of two squadrons of Mirages scheduled for the end of 1983, but no actual date has been set for the withdrawal of the remaining squadron.[14]

A revitalization of ZOPFAN also means that Thailand and the Philippines must take steps to eventually abrogate the Manila Pact of 1954 which links them militarily with the United States. While all the above measures cannot be implemented hastily, bona fide moves of such intentions by the ASEAN countries may hopefully encourage the Indochina states to loosen at least their military alliance with the Soviet Union. Moves such as these by the member countries towards a genuine ZOPFAN may hopefully also encourage Burma to emerge from political hibernation to make a more active contribution to the security of the region. It would be overly optimistic to expect the ASEAN governments to arrive at a multilateral approach to the military matters mentioned above especially on the question of foreign bases. Nevertheless, when there is an earnestness of purpose, moderate pressure can oftentimes be brought to bear on individual member countries to act in the general interest. Such was the case, for example, when ASEAN was extending its goodwill towards Vietnam in 1976 and the Philippines was nudged into issuing a joint communiqué with Vietnam which pledged, among other things, "not to allow any foreign country to use their respective territories as a base for direct or indirect aggression and intervention against each other and other countries in the region".[15]

The major stumbling block to a revitalized ZOPFAN remains the Kampuchean impasse. There are no quick answers to this problem and it is beyond the scope of this paper to discuss all the ramifications of a Kampuchean solution.[16] The problem at the present time is well contained through diplomatic manoeuvres, but unfortunately does not directly involve the major powers. It need not be belaboured that ultimately only a political solution can resolve the issue, and that a major priority from a ZOPFAN perspective is to keep all political channels of dialogue and negotiation open with the Indochinese as well as to welcome genuine mediation efforts such as those of the present Australian government. The East Timor issue is, in fact, being resolved through diplomacy at the present time although Indonesia's position is scarcely challenged.

As for intra-ASEAN efforts to revive ZOPFAN, much more work is necessary in upgrading inter-governmental and more genuine supranational co-operation. A retrogressive trend in ASEAN appears to be a reversion of co-

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operative efforts at the lowest common denominator.[17] A more progressive approach would be to keep exploring co-operative efforts at higher common ground. For example, from a ZOPFAN perspective, the escalating nuclear threat perpetrated by the superpowers offers some prospect for collective ASEAN policy. Such nuclear threat to the region is perhaps more real than is publicly known and acknowledged, considering the strong military presence of the United States and the Soviets in the region, and suggestions that nuclear weapons could easily be emplaced by the two nuclear powers in their respective bases in the Philippines and Vietnam.[18] In furtherance of the Kuala Lumpur Declaration which took cognizance of the trend to establish nuclear-free zones in the Third World, ASEAN should collectively call upon its members to take immediate steps to ensure that no nuclear weapons, tactical or strategic, be emplaced or transited in any ASEAN country. It may not be entirely unrealistic to invite the Indochina states to agree to a similar declaration since none of the Southeast Asian states stand to gain militarily from a nuclear escalation in the region. While no one can ultimately prevent or curb the nuclear escalation of the superpowers, curtailing their activities on land, air and sea may provide some measure of psychological security for ASEAN and its peoples. There is certainly no defence potential to be gained by achieving the nuclear threshold in Southeast Asia since it merely encourages one's rivals to do likewise to the point, ultimately, of potential internecine war.

Another area of prospective ASEAN co-operation along ZOPFAN lines lies in the latently explosive Law of the Sea issues. For example, the current claim by littoral states of the 200-mile Exclusive Economic Zone (EEZ) has opened a Pandora's box of complex criss-crossing and overlapping claims not only between ASEAN and non-ASEAN states but within ASEAN itself.[19] Incipient co-operative efforts in ASEAN consist of continental shelf boundary agreements including one among Thailand, Indonesia, and Malaysia with respect to the Straits of Malacca, signed in 1971. The potentially inflammatory nature of Law of the Sea issues is amply demonstrated by Malaysia's recent military occupation of an island-reef near Amboyna Cay, claimed and patrolled by the Vietnamese, located in the vicinity of the heavily disputed Spratley group of islands which the Vietnamese occupy. Some of these islands are also occupied by the Philippines and Taiwan and are also claimed by China. In other parts of Southeast Asian seas, China and Vietnam have a maritime boundary dispute in the Gulf of Tonkin, and, southwards, Vietnam has overlapping continental shelf claims with Indonesia, Malaysia, Kampuchea, and Thailand. Overlapping claims also exist between Malaysia and the Philippines and between Kampuchea and Thailand in the Gulf of Thailand and potential disputes exist between Brunei and Malaysia.[20]

The case could therefore be made for ZOPFAN to provide the broad basis for staving off potential conflagration over the territorial sea claims for ASEAN and non-ASEAN littoral states. Intra-ASEAN agreements on such issues have thus far merely skirted the surface of a deep-seated problem. The Malacca Straits Safe Navigation Scheme of 1971, the Facilitation of Search for Ships in Distress and Rescue of Survivors of Ship Accidents of 1975, and moves to produce a Protocol

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for environment protection of "ASEAN Seas" are examples of positive but small steps in Law of the Sea co-operative efforts. Further efforts could well proceed within the framework of the Informal Composite Negotiating Text (ICNT) formulated by the United Nations, which calls upon regional bodies,

> to coordinate the management, conservation, exploration and exploitation of the living resources of the sea;
> to coordinate the implementation of their rights and duties with respect to the preservation of the marine environment;
> to coordinate their scientific research policies and undertake, where appropriate, joint programmes of scientific research in the area; and
> to invite, as appropriate, other interested states or international organisations to co-operate with them in furtherance of these provisions.[21]

The external efforts suggested in the foregoing pages for a revitalized ZOPFAN are pointers in the direction of satisfying the necessary conditions for a genuine zone of peace, freedom and neutrality in the region. They are by no means entirely sufficient conditions. At a more fundamental level, a genuine ZOPFAN would also presuppose a high level of domestic political security, implied in the notion of national resilience discussed earlier. At the very minimum, ASEAN governments must be able to sustain the delivery of social and economic goods compatible with a decent living standard, and protection from political harassment and economic exploitation of its peoples. In many areas within ASEAN today, such "social security" hardly exists. Worse still, stark contrasts in terms of the delivery of such social and economic goods exist between and within the ASEAN countries. While it is beyond the scope of this paper to delve into the contradictory trends in ASEAN's social and economic development, it needs to be stressed that the attainment of the conditions for a successful pursuance of ZOPFAN as an external policy would be devoid of meaning should the majority of ASEAN peoples themselves not enjoy the peace, freedom and security that is achieved externally.

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3. Ghazali Shafie, "ASEAN Response to Security Issues in Southeast Asia" (Paper presented at Centre for Strategic and International Studies, Jakarta, October 1974).
4. *New Straits Times* (Malaysia), 13 December 1983.
5. The most notable successes of the Soviet scheme appear to be the signing of friendship treaties (which double as military alliances) with India in 1972 and with Vietnam in 1978. The scheme has

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been interpreted by some scholars as a Soviet strategy to assert itself as an Asian power and to provide a countervailing force against China. See, for example, Sheldon W. Simon, "The Soviet Union and Southeast Asia: Interests, Goals and Constraints", *Orbis* 25, no. 1 (1981): 56, and *passim*.

6. It is now widely known that ASEAN officials had been wrestling with various proposals for regional co-operation, including that of an U.N. expert team, prior to the 1976 Bali accords. The word "blueprint" came into usage for describing these pre-Bali plans. Malaysia, on its part, in May 1975 announced during the ASEAN Ministerial Conference in Kuala Lumpur that a "blueprint for ZOPFAN" was being mooted and formulated. See Saravanamuttu, op. cit., p. 96.
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11. As explained by Daud Yusuf, formerly of the Centre for Strategic and International Studies, Jakarta, cited in Alison Broinowski, op. cit., p. 40.
12. See *Far Eastern Economic Review*, 16 June 1983.
13. See "U.S. Bases in the Philippines", *Southeast Asia Chronicle*, no. 89 (April 1983): 7.
14. However, there is little doubt that it will be pulled out, following a decision by the Australian Government to acquire new F-18 jets to replace the aging Mirages. The new jets are too expensive to be maintained at Butterworth and the question now is whether there should be a permanent withdrawal or a periodic deployment of aircraft to Butterworth; *New Straits Times*, 18 January 1984.
15. "U.S. Bases in the Philippines", p. 7.
16. For an excellent exploration of the case for a Kampuchean solution based on eventual de-recognition of Pol Pot and the mounting of a sophisticated diplomatic effort on the part of ASEAN, compatible with ZOPFAN precepts, see Martin Stuart-Fox, "Resolving the Kampuchean Problem: The Case for an Alternative Regional Initiative", *Contemporary Southeast Asia* 4, no. 2 (September 1982).
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21. Valencia, op. cit., p. 342.

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DOCUMENTATION

Address from the Holy See to the Government, Diplomatic Corps and Religious Leaders, 11 May 1984, Bangkok, Thailand.

Mr Prime Minister,
Distinguished Ladies and Gentlemen,
Dear Friends,

1. It is a distinct pleasure for me to address you this evening and to offer you, and those whom you represent, my very cordial greetings and heartfelt gratitude for your presence here.

The *friendly relations* that have existed *between the Holy See and the Kingdom of Thailand* stretch back into history some three hundred years. In 1669, during the reign of King Narai the Great and the pontificate of Pope Innocent XI, the first Vicariate Apostolic was erected in the sacred city of Ayutthaya. Modern times witnessed a growing desire for closer ties between the Holy See and Thailand, until formal diplomatic relations were established in 1969.

The present status of relations reflects the *mutual trust* that exists between the Holy See and Thailand. It gives ample assurance to the Government of Thailand that there is no incompatibility on any level between a Thai citizen's loyalty to his country and his acceptance of the Christian Gospel and membership of the Catholic Church. Indeed, the promotion of the virtue of patriotism has a long tradition in Catholic teaching, as the history of the many heroic Catholic patriots in various countries round the world attests to.

2. The Catholic Church is a universal community whose members belong to almost all countries and continents, nations, races, languages and cultures. She sees as an important part of her mission the task of seeking out ways for understanding and peaceful collaboration among peoples, and she promotes initiatives which safeguard and defend the *God-given dignity of the human person*.

For this reason, I wish to take the opportunity tonight to call to your attention, as representatives of governments and nations, a problem of immense magnitude. To keep silent about it would be a kind of denial of what the Catholic Church teaches about human dignity and about how individuals and nations can and should respond in defence of that dignity. I speak of *the plight of the* thousands and thousands of *refugees* currently living in this country. My deep concern for their welfare and future impels me to mention the subject in this assembly and to speak out on their behalf.

Through the courtesy of the Thai Government, I had the opportunity this morning to visit *the Refugee Camp at Phanat Nikhom*, a processing and transit centre for over seventeen thousand men, women and children who have been exiled from their own countries and have sought asylum here in Thailand. It was a particularly moving experience for me because, as I looked into the faces of so many suffering human beings, at the same time I

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realized that there were thousands more in a similar situation, living in the various other camps in this country.

The sad lot of these courageous and unfortunate people cannot be ignored by *the international community*. Indeed, the conscience of humanity must be made ever more aware of the evils of the situation, so that prompt and decisive action may be taken towards an adequate solution.

3. *The poverty of these victims* of political unrest and civil strife is so extreme on virtually all levels of human existence, that it is difficult for the outsider to fathom it. Not only have they lost their material possessions and the work which once enabled them to earn a living for their families and prepare a secure future for their children, but their families themselves have been uprooted and scattered: husbands and wives separated, children separated from their parents. In their native lands they have left behind the tombs of their ancestors, and thus, in a very real way, they have left behind a part of themselves, thereby becoming still poorer.

Many of the refugees have endured great dangers in their flight by sea or land. All too many were given up for lost or died *en route*, often the victims of shameless exploitation. Arriving here completely destitute, they have found themselves in *a state of total dependence* on others to feed them, clothe them, shelter them and make every decision for their future.

And how much greater is the poverty of the aged, the infirmed and the handicapped, who experience particular difficulty in finding a country willing to give them stable asylum. These countless victims are indeed enduring *a cruel misfortune*: unable to return to their own countries, they cannot remain indefinitely in their present state. What are they to do? Does the path which they have been forced to follow offer them real hope for the future?

4. The desperate appeals of these suffering men, women and children have been heard by *many compassionate people*, both in Thailand and around the world, who offer a ray of hope. At this time, I would like to express my admiration and appreciation to the various groups who have assisted the refugees during their stay in this country.

In the first place, I wish to express my gratitude to *the Government and people of Thailand*. They are to be thanked especially for having agreed to be, for many years now, the country of first asylum for thousands and thousands of refugees from other parts of South-east Asia. The international community knows the difficulties which they have encountered. These difficulties are not only of a material nature. The internal and external political order of the nation have been affected by the steady influx of refugees. The departure of these same people to resettlement countries has not proceeded at nearly the same rate.

History will record the sense of hospitality, the respect for life and the deeply rooted generosity shown by the people of Thailand. These national traits have enabled the Thai authorities to overcome many obstacles and thus provide a measure of hope for so many people living on the verge of despair. To His Majesty the King and to the Government and people of Thailand, I renew my deep appreciation.

I also acknowledge, with profound esteem, the work of *the United Nations High Commission for Refugees*. This organization's great solicitude for the protection and assistance of refugees throughout the world has moved it not only to assume, with the constant help of governments, the financial burdens of first asylum, but also responsibility for encouraging nations to accept refugees and to offer them a real chance of settling down and making a new life. The generous response of these many *host nations* is well known and has certainly earned the enduring gratitude of the refugees.

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Similar human solidarity is being manifested in a very clear way by numerous *non-governmental organizations*, both of a confessional and non-confessional nature. I would like to single out the work of COERR (Catholic Office for Emergency Relief and Refugees), and I am also glad to mention the many other national and international organizations which are cooperating in this urgent mission of mercy. These bodies have assisted the refugees by providing educational facilities, by helping to safeguard their cultural identity, and by offering them moral and psychological support.

In addition, the contribution of many *Catholic organizations* is an expression of the generosity and solidarity of numerous local churches in other parts of the world. Here, I would like to express a special word of thanks to those who have given religious assistance to the refugees, satisfying their spiritual hunger while at the same time respecting the beliefs of those concerned.

Finally, I cannot pass over in silence the contribution made by *the many volunteers*, especially young people, who have come from all parts of the world to put themselves at the service of the refugees. Their experiences will impress them deeply and may well give a new orientation to their own lives.

To all these individuals and groups I offer a word of deep gratitude and praise. Although they are unable to meet all the needs of their less fortunate brothers and sisters, these generous people, through a magnificent example of cooperation, show the refugees that they are not abandoned and that *they still have reason for hope*, even in the midst of unspeakable tragedy.

Furthermore, when we consider the vast numbers of people living in the camps, these many agencies and groups help to remind us that each refugee is *an individual human being*, with his or her own dignity and personal history, with his or her own culture, experiences and legitimate expectations. Many of the refugees have written to me, expressing their anxieties and aspirations, and I have been deeply moved by their pleas for attention and help.

5. However, the many efforts being made towards relieving the sufferings of the refugees should not be a convenient excuse for the international community to stop being concerned for *the ultimate future* of these people. The fact remains that it is something repugnant and abnormal for hundreds of thousands of human beings to have to leave their own countries because of their race, ethnic origin, political convictions, or religion, or because they are in danger of violence or even death from civil strife or political turmoil. Exile seriously violates the human conscience and the norms of life in society; it is clearly contrary to the Universal Declaration of Human Rights and to international law itself.

Consequently, the governments of the world and the international community at large must focus their attention on *long-range political solutions* to the complex problem.

Resettlement alone can never be the final answer to these people's plight. They have *a right to go back to their roots*, to return to their native land with its national sovereignty and its right to independence and self- determination; they have a right to all the cultural and spiritual relationships which nourish and sustain them as human beings.

6. In the final analysis, then, the problem cannot be solved unless the conditions are created whereby genuine *reconciliation* may take place: reconciliation between nations, between various sectors of a given national community, within each ethnic group and between ethnic groups themselves. In a word, there is an urgent need to forgive and forget the past and to work together to build a better future.

Within the context of my appeal for reconciliation, I wish to acknowledge the various

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representatives of other religious and spiritual traditions who have honoured this assembly tonight. Their presence bears witness to a shared conviction of the duty to discern more clearly the values belonging to the spiritual dimension of human existence. From this perspective, one can readily see that *united efforts* by Christians and members of non-Christian religions in the task of reconciling individuals and groups, one with another, can be a fruitful field of common labour. This is especially true since such efforts respond to a fundamental instinct of the human spirit.

7. Ladies and Gentlemen, from this place tonight I wish to renew the appeals I have made on other occasions to representatives of governments and international organizations, to increase and intensify all efforts so that the *refugees*, both here in Thailand and elsewhere *may be received back into their homeland*, in which they have *a natural human right* to live in freedom, dignity, and peace.

The Catholic Church, for her part, offers the assurance of her *unflagging support* for any measures which pursue this goal. She likewise pledges her constant availability to assist, as much as she can and solely out of her love and respect for the human person, in any efforts aimed at re-establishing the just conditions and circumstances to which every refugee has a human right and without which true and lasting peace cannot be possible.

May our common endeavours on behalf of the dignity of the human person bring upon us abundant blessings from God, who is the source of all human dignity and who calls us to acknowledge and respect that dignity as his precious gift.

May God sustain you in the great mission of *serving humanity in need*.

SOURCE: Office of the Holy See, Rome.

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BOOK REVIEWS

Social Science Research in Malaysia. By Tham Seong Chee. Singapore: Graham Brash (Pte) Ltd., 1981.

Malaysian Studies: Present Knowledge and Research Trends. Edited by John A. Lent. Northern Illinois University, Center for Southeast Asian Studies, Occasional Paper No. 7, 1979.

These two books, one published in 1979, the other in 1981, represent the latest overviews of social science research in Malaysia. A comparison of the contents of the two volumes provides interesting insights into assessing the "the state of the art".

Tham Seong Chee, Associate Professor, at the Department of Malay Studies, National University of Singapore, has prepared his book "specifically for the researcher in social science or the librarian dealing with the documentation of social science research materials covering Malaysia." He divides his book into eight chapters, and the main disciplines discussed are: Sociology and Anthropology (Chapter II), History and Political Science (Chapter III), Economics (Chapter IV), and Education and Mass Communication (Chapter V). Professor Tham also includes chapters on Social Science Research in East Malaysia (Chapter VI), an overview of research organizations (Chapter VII), and a concluding chapter on research trends.

The volume edited by John A. Lent (Professor of Communications at Temple University) is the published, augmented version of the set of papers emanating from a panel on "Malaysian Studies: State of the Field", which the editor organized at the 1978 Association for Asian Studies Conference in Chicago. Five panelists contribute disciplinary overviews: Sociology (Charles Hirschman), Anthropology (Vinson H. Sutlive, Jr.), Political Science (Felix Gagliano), Mass Communications (John A. Lent), and Education (R. Murray Thomas). In addition, there is a very useful chapter compiled by Frank Joseph Shulman titled: "Doctoral Research on Malaya and Malaysia, 1895–1977: A Comprehensive Bibliography and Statistical Overview". There is also a summary chapter, "An Overview of Malayan Studies", by Ronald Provencher.

Although Tham's volume provides an overview of a wider range of disciplines, the book edited by Lent has a more substantial bibliographical reference section. This is primarily due to the fact that each of Lent's contributors is a specialist in his discipline.

It might be useful for comparison to devote a more detailed discussion to a field treated by both books: Sociology/Anthropology. Tham organizes his chapter by beginning with those areas which have attracted the most attention in Malaysia in the 1970s. He, thus, first introduces the topic of Research on the Malays (2.01), Values and Participation of Malays in the Economy (2.02), Values and Various Areas of Malay Life (2.03), Islamic

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Values and Beliefs (2.04), Malay Women (2.05), Family and Socialization (2.05), and Poverty among the Malays (2.07). The second set of issues which Professor Tham deals with is Ethnic Relations (2.08), and he observes that "no other area of research dominates the interest of both local and foreign scholars as much as does ethnic relations in contemporary Malaysia." Charles Hirschman, who contributes the Sociology chapter in the Lent volume, echoes this observation: "The primary focus of this chapter is on ethnic inequality — a dominant issue in contemporary Malaysia." The fact that Tham chooses the term "ethnic relations", while Hirschman prefers the term "ethnic inequality" typifies the two authors' perspectives on the subject. Although Hirschman devotes fourteen pages to the subject, and Tham only one and a half pages, their conclusions are surprisingly similar: both offer essentially negative judgments of the majority of work done in the field. Hirschman admits that "I am skeptical that the product has led to a store of knowledge or understanding of ethnic divisions, their causes, or consequences." Tham metes out an even harsher judgment: "However, research on race relations up till now has not contributed to a better understanding . . . because of the tendency of researchers and scholars in general to overemphasize the centrifugal forces undergirding the race situation. Indeed, in a sense, it might be said that such studies have aggravated the situation."

Tham, in his concluding chapter offers some opinions on future trends. For instance, he mentions the decrease in the number of foreign scholars, and the increase in the number of local scholars, and in this light, more reliance on Bahasa Malaysia. Because many of these local scholars are just beginning their careers, he sees them as inheriting a tremendous challenge to raise both the quality and quantity of social science research work.

The Lent volume is in general more critical in its assessment of constraints on academic research, on forbidden topics, on politics within academia, and the underrepresentation of certain important fields and methodologies. Ronald Provencher, in his concluding chapter to the Lent volume, however, articulates an assessment which would probably be shared by many Southeast Asian scholars: "With all the problems of the research establishment . . . it is probably the best overall research establishment in Southeast Asia. And it is the native sectors, the Malaysian researchers in government and academia, which provides the comparative advantage."

Sharon Siddique
Institute of Southeast Asian Studies

Straits in International Navigation: Contemporary Issues. By K.L. Koh. London: Oceana Publications, 1982. Pp. 225, with diagrams, tables, index, bibliography.

This book on the problems of navigation through international straits, written by a professor of law, deserves to be more widely known. This is because from the legal foundations of the international negotiations and postures taken by the various countries in the United Nations Conference on the Law of the Sea (UNCLOS) the writer has attempted to relate purely legal issues to wider maritime problems, such as safety of navigation, defence, and the preservation of the marine environment. For example, the question of navigation through straits is closely and directly related to the now generally accepted concept of the

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twelve-mile territorial sea, and the implications of this relationship are brought out clearly as the author discusses the problems faced by the various straits states.

This book helps fill a gap in the literature on international straits. While purely legal interpretations abound, legal analyses which take into account the broader problems involved are scarce. In this book, however, the topic is studied in a manner which allows for the introduction of concerns of disciplines other than law. The author has attempted, and in most instances quite successfully, to examine the legal issues in a wider context. This concern is reflected in the bibliography which includes items from a number of disciplines and should prove useful to practitioners and researchers dealing with the legal as well as other issues of straits navigation. The bibliography, in fact, runs the gamut of disciplines which deal, even remotely, with the issue of international straits.

The study is divided into six chapters, opening with a discussion of the issues of the twelve-mile sea claim, passage of ships and aircraft, safety of navigation and the prevention of pollution, the issue of innocent passage, and the problem of enforcement. There is also a discussion of what exactly constitutes a geographic straits and a review of the various straits which are used for international navigation.

International jurists, students of strategic affairs, political geographers, and those interested in the maritime aspects of international relations would find this book rewarding, especially the chapters dealing with the Straits of Malacca and Singapore. Although much attention is paid to the major international straits, other less known straits and the negotiating postures taken by countries with interests in straits are also included. For example, little-known views of the People's Republic of China are dealt with in some detail in Chapter Five. Furthermore, a number of appendices giving the text of agreements provide useful basic documentary material.

Although readable and written in a flowing style, the general format tends to be "legalistic" in appearance with a considerable portion of the text presented in note form. However, it is gratifying to know that highly technical legal terms have been kept to a minimum. With so much material presented and with revealing analyses scattered appropriately throughout the book, one would have expected the conclusion to have been fuller, tying together all the relevant threads of argument presented. This small drawback, however, does not detract from the overall usefulness of a study which should find its place in all libraries and collections which have an interest in Southeast Asia, in the problem of navigation and straits in general, in maritime strategy, defence issues and international relations as they pertain to the law of the seas.

Lim Joo-Jock
Institute of Southeast Asian Studies

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Church and State in the New Republic of the Philippines[1]

ROBERT L. YOUNGBLOOD

Relations between the Philippine churches — especially the Roman Catholic Church — and the Marcos regime are worse now than at any time since the declaration of martial law in 1972. At its 17–23 January 1983 meeting, the Catholic Bishops' Conference of the Philippines (CBCP) voted to withdraw from the Church-Military Liaison Committee (CMLC), established in 1973 to resolve controversies between the Catholic and Protestant Churches and the military, and on 20 February 1983, the CBCP issued a pastoral letter, read in more than 3,000 parishes, accusing the government of economic mismanagement, corruption, and repression. Although the bishops will continue discussions with the military in an expanded church-state body that includes representatives from other government agencies, relations between the two institutions have in fact deteriorated. The withdrawal from the CMLC came in the wake of intensified church-military controversy over the extent to which the churches are infiltrated by communists.[2] Raids on church institutions and the arrest of priests, nuns, and laymen suspected of leftist tendencies increased considerably in 1982, and since July 1982, the government-controlled media have published numerous articles critical of the so-called church radicals, but not explanations and clarifications from church officials. Tensions are unlikely to ease, according to the bishops, without fundamental governmental reforms that would "accept a certain pluralism of positions in the way . . . people strive for justice according to their faith".[3]

Although martial law was terminated in January 1981, the powers of the President and the military remain largely unaltered. Marcos continues to issue decrees, and, despite the dismantling of military tribunals and detention centres, the military continues to arrest persons suspected of anti-government activities. Such powers — justified in the name of national security — have frequently placed the government and the Catholic and Protestant Churches at odds as priests, pastors, nuns, and layworkers engaged in the churches' social action programmes are often put under suspect and sometimes detained for alleged "subversion". The current church-state conflict cannot be fully understood outside of the structural context of the development programme and increasing militarism of the Marcos regime, and of the exhortations of Vatican II to the clergy to work on behalf of the poor. While the government's export-led development programme as well as the military's tripling in size since 1972 are well known, changes within the Philippine churches are more obscure. Thus, church-state relations in 1981–84 are analysed within the context of political divisions within the

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church and of the changes that have taken place within the church's own social action programme in the past decade and a half. For only by understanding the churches' commitment to social action and the government's and military's suspicions of the programme and the reasons for these suspicions, can one understand the nature of current church-state conflict in the Philippines.

The Churches and the Termination of Martial Law

The lifting of martial rule in January 1981 was generally received favourably by the leaders of the Roman Catholic and Protestant Churches. Jaime Cardinal Sin, Archbishop of Manila, urged cynics to put aside "doubts" and "scepticism" and allow the President "a chance to show his sincerity" in restoring political freedom.[4] However, the euphoria over the termination of martial rule was moderated by a two-year dispute over whether the church or the government would host the visit of Pope John Paul II in February 1981. Although the church won, declaring the visit pastoral, the papal sojourn provided a public relations boost for the regime.[5] The Pope attended a reception at Malacañang, the Presidential Palace, and was greeted on all of his stops throughout the country by the First Lady, Imelda Marcos. While he told the President and government officials at the presidential palace that national security considerations "never justify any violations of the fundamental dignity of the human person or the basic rights that safeguard this dignity", he also indirectly praised the lifting of martial law. Earlier the same day he cautioned priests and nuns about taking "an exaggerated interest in the wide field of temporal problems" in the name of the Gospel.[6] John Paul's meetings with the urban poor and his calls for sugar workers to organize were counterbalanced by warnings against violence and the appeals of Marxism. The Pope's even-handedness appeared to suit the regime, and in the process provided little moral restraint on military campaigns against alleged subversives.[7]

Church leaders also became embroiled in the 16 June 1981 presidential election. Following the political opposition's boycott of the 17 April 1981 constitutional plebiscite establishing a mixed presidential-parliamentary system of government, and refusal to participate in the 16 June election, Cardinal Sin suggested that the presidential election be postponed until "the credibility of the government is restored", averring that for Marcos to run unopposed "would be a farce reminiscent of one-candidate elections in totalitarian countries". The Cardinal proposed instead that "the useless expenditure of uncounted millions of pesos" on the election be spent on underfinanced government projects to further the aims of the New Society and thereby restore the people's confidence in the government.[8]

Marcos rejected Cardinal Sin's advice. It was no surprise when they clashed over press reports on 10 June quoting the President as saying that "according to an encyclical of Pope Pius XII, it was a mortal sin not to vote in an election" and another story on 15 June suggesting that the Catholic Women's League of the Philippines (CWL) was irritated by the "political agitation" of some Catholic

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leaders.[9] Cardinal Sin responded, first, by clarifying Pius XII's encyclical, stating concomitantly that a refusal to vote as a matter of conscience must be respected by the state, and by circulating a letter from the CWL repudiating the news reports in the controlled-media, and, second, by accusing the regime of a "deliberate, finely orchestrated campaign . . . to throttle the freedom of the church to speak on matters of Catholic morality". Such a campaign, Cardinal Sin argued, made a "mockery of the constitutional provision regarding freedom of religion".[10] All this, however, needs to be seen in the context of the popular vote in 1981. The Cardinal's criticisms, in fact, had little effect on the outcome of the election. Marcos was re-elected by a margin of nearly 90 per cent.

Encounters with the military were another major source of church-state friction. In April 1981, Filipinos were shocked by the murder of Fr. Godofredo Alingal, a member of the Society of Jesus (SJ) in the Diocese of Malaybalay in Bukidnon, and by a grenade explosion in Davao City's San Pedro Cathedral that killed 16 persons and injured more than 150.[11] Although the New People's Army (NPA) was accused by the military for Alingal's death, and dissident groups including the NPA and the Moro National Liberation Front (MNLF) were initially blamed for the cathedral bombing, church officials and laymen were sceptical. Bishop Francisco Claver, for example, pointed out inconsistencies in the government's account of Alingal's murder, while at least two concerned citizens' groups of Davao protested the regime's conclusions about the bombing incident, questioning in particular the exoneration, prior to the conclusion of a full investigation, of a "lost command" — a shadowy anti-insurgency unit — operating in the area.[12] The government's credibility was weakened further by the fact that Alingal's Basic Christian Community (BCC) activities and social work in Kibawe, Bukidnon, had antagonized local officials and the military, and by the fact that the military had been linked to an increasing number of unsolved, violent incidents in Davao del Norte and Davao del Sur. Alingal's murder remained unsolved, and the MNLF, though officially blamed for the grenade attack, condemned the bombing as an "heinous act" perpetrated by persons "devoid of moral or religious scruples".[13]

Another manifestation of the tension between the church and the regime was the expulsion of two missionaries of the Maryknoll Fathers (MM) in 1981. Fr. D. Edward Shellito was deported in June and Fr. Ralph Kroes was denied re-entry in August 1981. Both were accused of "subversive activities" and branded "undesirable aliens" because of their social justice work in the Diocese of Tagum in Davao del Norte. Shellito and Kroes provoked the military and local authorities by publicizing alleged military abuses against civilians, and by opposing the forcible expulsion of small farmers from their land to make way for the expansion of a banana plantation by one of the largest growers in the country. The priests denied the charges against them, and were vigorously supported by the Maryknoll regional superior, Fr. James Ferry, who characterized Kroes's politics as "rather conservative" and pointed out that many cases of alleged military misconduct handled by Kroes as head of the prelature's Justice and Peace Office were

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"brought to him by the people". Both deportations triggered protests by priests and laymen in the Davao region, and eventually the government reversed its decision and allowed the missionaries to return.[14]

Intensified Church-State Antagonism, 1982–84

The policy reversal on Shellito and Kroes, however, failed to bring about better relations between the regime and the churches; at least a dozen clashes, resulting in the gaoling of social activists and the raiding of church institutions, occurred in 1982. In February 1982, for example, two laymen and a minister, Rev. Rock Castillo, of the United Church of Christ of the Philippines (UCCP) in Oriental Mindoro, ran afoul of the military for possession of "subversive material and documents" including church-sponsored publications such as *Breakthrough* and *Ibon* (Bird), and two senior staff members, Violeta Marasigan and Laura Ocampo, of the National Council of Churches of the Philippines (NCCP), and a staff member, Avelina Enrile, of the Student Christian Movement of the Philippines (SCMP), were arrested for alleged links to the Communist Party of the Philippines (CPP) and *Anak Pawis sa Kalunsuran* (Labour Prosperity).[15] The following June two members of the Society of the Sisters of the Good Shepherd (RGS), Pilar Verzosa and Zenaida Pineda, and three lay workers were arrested in Batangas on charges of alleged subversion while investigating alleged military involvement in a land dispute. All five were labelled by the media as members of the NPA, and Sr. Verzosa, mistakenly identified as Kumander Laura, was accused of "murder".[16]

Two months later, in August 1982, two priests, Theodore Bandsma and Herman Sanderinck, from the Congregation of the Immaculate Heart of Mary (CICM) and three lay workers were arrested on the charge of harbouring communists during a live-in Christian seminar in Nueva Vizcaya.[17] In September the military raided the Catholic social action centre in Catbalogan, Samar, and the Task Force Detainees (TFD) office in Jaro, Iloilo, for alleged anti-government activities, while a Society of St. Columban (SSC) missionary from Australia, Brian Gore, an organizer of a number of successful Basic Christian Communities (*Kristianong Katilingban*), was arrested in Kabankalan, Negros Occidental, for alleged "illegal possession of explosives and ammunition" and "inciting to rebellion".[18] During the raid in Catbalogan, Sr. Helena Gutierrez, OND (Oblates of Notre Dame) and two lay workers were detained, and in October 1982, Fr. Edgardo Kangleon, director of the social action centre, was arrested.[19] The military action in Kabankalan also led to the arrest of another Columban missionary from Ireland, Niall O'Brien, and a Filipino diocesan priest, Vicente Dangan, and six lay workers, who, along with Gore, were subsequently charged with the assassination of Kabankalan's mayor, Pablo Sola, and four associates during a March 1982 ambush.[20]

Both Protestant and Catholic Church officials protested the government's actions. The NCCP issued a "Statement of Concern" demanding that Marasigan, Ocampo, and Enrile be "unconditionally granted" all constitutional and legal

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rights and that they be "released immediately for humanitarian reasons". The statement also denounced the arrests and the search of the Pasay United Methodist Church, and denied allegations linking the NCCP to any communist organization.[21] Similarly, Catholic officials, including the Maryknoll Sisters of the United States, questioned the arrest of Srs. Verzosa and Pineda, while Bishop Alberto Van Overbeke issued a strongly worded pastoral letter claiming Frs. Bandsma and Sanderinck were "neither criminals nor subversives".[22] Bishop Antonio Fortich of Bacolod consistently maintained Gore's innocence, whose arrest and detention resulted in widespread protest among laymen and priests in Negros Occidental, including a 24-hour hunger strike by 500 *Kristianong Katilingban* members and a mass attended by an estimated 6,000. Cardinal Sin reportedly told Immigration Commissioner Edmundo Reyes, prior to the suspension of deportation proceedings in March 1983 against Gore, pending the outcome of the court case against him, O'Brien, Dangan, and the six lay leaders, that the charges against the Australian priest were "outlandish".[23] Nevertheless, the three priests were again detained in May 1983, and although released to house arrest almost immediately by President Marcos, returned to gaol — at their own request — in January 1984 as a "matter of conscience and in solidarity" over the denial of bail for the six lay leaders.[24]

Priests in Samar also protested the Catbalogan raid and arrests. However, by December Kangleon not only admitted to being a member of the CPP, using the social action centre as a cover for illegal purposes, and funnelling monies from abroad into "underground activities", he also identified others, including six priests, a nun, and seven layworkers, involved with the communist movement.[25] Although Kangleon repudiated his association with the CPP and denied he was "coerced, tortured, or drugged" into making the confession, some church officials still insisted on expressing scepticism about the admissions, suggesting that the military may have used force to obtain them.[26] However, the confession tended to substantiate the military's claims, and resulted in considerable publicity about communist infiltration of the church in Samar and elsewhere in the Philippines. Kangleon's revelations were followed by his early release into the custody of the Military Vicar of the Philippines and his grant of "full amnesty" by President Marcos in October 1983.[27]

The Catbalogan raid revolved around a $25 million development programme in Samar funded by the Australian Government. The Samar Concerned Citizens for Human Rights (CCHR), a Catholic social justice group, in co-operation with the National Secretariat for Social Action, Justice and Peace (NASSA) in the Philippines and the Australian Catholic Commission for Justice and Peace (CCJP), issued a report (under the auspices of the CCJP) in March 1982 claiming that the project benefitted the rich rather than the poor and facilitated, through road construction, increased military repression in Northern Samar.[28] The CCHR report was interpreted by an Australian journalist in two articles in the *Sydney Morning Herald* in June and July as the work of radical priests and nuns bent on "violent revolution" in the Philippines.[29] Within days Juan Ponce Enrile,

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the Minister of Defense, indicated that the military would investigate radical elements in the church in Samar, and subsequently used the *Sydney Morning Herald* articles as justification for the action on the social action centre in September. Moreover, Enrile averred in October 1982 that captured documents and admissions from layworkers indicated that the church in Samar was honeycombed with communists.[30] This pointed to the fact that the authorities were concerned about the infiltration of the church's social action programmes by communist cadres.

The government's pressure on activist clergy and layworkers continued in 1983 and 1984. Perhaps the most widely publicized incidents were the arrest in March 1983 of Rev. Volker Martin Jurgen Schmidt, a German Lutheran missionary, in Davao City along with several layworkers, including Carlito "Karl" Gaspar, former Executive Secretary (1977–80) of the Catholic Mindanao-Sulu Pastoral Conference (MSPC), and the raids in August 1983 on the convent of the Franciscan Sisters of the Immaculate Conception of the Mother of God (CFIC) and on the residence of Bishop Miguel Purugganan in Illagan, Isabela. The military suspected that the home of Rev. Schmidt was the headquarters of the Southern Mindanao Regional Party Committee (SMRPC) of the CPP, and over a three-day period detained everyone visiting the residence.[31] Although several of those picked up were released almost immediately, Schmidt and the three layworkers were detained for subversion in connection with their work at the Ecumenical Center for Development, which the military considered a "communist front organization".[32] Similarly, Gaspar was jailed for his activities as Executive Secretary of the Resource Development Foundation, and was accused (prior to a trial) by government officials, including President Marcos, as a communist leader and a conduit for international funding of the CPP in Mindanao.[33]

The imprisonment, especially of Schmidt and Gaspar, drew criticism in the Philippines and from abroad, and prompted Gaspar, in an April 1983 letter to Philippine bishops, to protest not only the circumstances of his arrest but also to deny any connections with the communists, claiming:

> The truth is that I *am not* 'a top ranking member of the CPP and head of the CPP Mindanao United Front Commission'; that the Resources Development Foundation where I work now is *not* 'a front of the CPP'; that I have gone on trips abroad *not* 'to contact communists in order to raise funds for the CPP'. In most of these trips abroad I was with bishops, priests, nuns and lay church-workers. They can testify to what I did abroad.
>
> I have told my military interrogators that the reason for my involvement in justice and development issues is because of my faith commitment. Most of them, in fact almost all of them, cannot comprehend why we would risk our lives because of our faith in Jesus Christ and our concern for our fellow men.[34]

Gaspar, along with Schmidt and the layworkers, joined other detainees on Philippine Independence Day 1983 in a fast over prison conditions. Eventually a compromise with the military resulted in the termination of the 44-day fast in July 1983, but not before Gaspar and Schmidt were transferred to the Davao City gaol as

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punishment for leading the hunger strike.[35] The following month the charges were dropped against the three layworkers, although they were not immediately freed, and in September 1983 Schmidt was released in the "spirit of amity between nations" and allowed to leave the Philippines. Gaspar was returned from the Davao City gaol to the Davao PC/INP Metrodiscom Detention Center in late September 1983, but he continues to remain in detention pending the outcome of his case in the Philippine courts.[36]

The military raids on the CFIC's convent and Bishop Purugganan's palace in August 1983 were prompted by reports that the residences harboured not only communists and "subversive" priests, including Fr. Conrado Balweg, a member of the NPA, but also contained "firearms . . . and voluminous subversive documents".[37] However, the raids produced no arrests and unearthed only a few publications on human rights, such as *Political Detainees Update* and *Katarungan* (Justice). In addition, four of the six priests listed in the warrant given to Bishop Purugganan work in the Vicariate of the Mountain Province and previously had never been associated with Fr. Balweg's NPA activities. Although the Franciscan sisters and Bishop Purugganan attested to the fact that the raids themselves were conducted properly, both questioned the military's motives for the investigations.[38] The military subsequently apologized, but the raids nevertheless drew swift and sharp rebukes from Catholic Church officials, including Cardinal Sin, and Bishop Purugganan refused to accept the explanation that the raids were simply a "mistake" rather a "test" to see "how far the military can go with the Church" and "how much the Church can stand".[39]

The imprisonment and raids were only a part of the government's attempt to silence critics in the churches. In August 1982, Leonardo Perez, Minister for Political Affairs, proposed that "the pulpit and similar religious forums" be made part of the mass media to ensure the right of reply to pastors critical of the government, and in November 1982 Blas Ople, the Minister of Labor, called for a change in foreign work permit regulations as a warning to foreigners, especially missionaries, about engaging in "dubious political activities".[40] Also in November, Marcos singled out 20 priests and nuns considered members of subversive organizations, and said at least another 97 members of the clergy were suspected of aiding subversive organizations such as the CPP/NPA.[41] Fear of the growing influence of church progressives among the people prompted the government to arrest at least 35 church workers in 1982, including three nuns and seven priests and led the controlled-press to print numerous articles critical of church activists — without providing opportunities for rebuttal by Catholic and Protestant Church leaders — during the last six months of 1982.[42]

Cardinal Sin's sharp criticism of the regime continued to anger government and military officials in the 1982–84 period. Sin bemoaned the worsening economic situation, including graft and corruption in government, lamented the lack of press freedom, and questioned the "moral basis" of using national security in curtailing "essential freedoms".[43] Especially nettlesome was the Cardinal's July 1982 suggestion that since Marcos had "lost the respect of the people" after 16 years in power,

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he should "make way for new leadership" to solve the country's problems and "to stem growing communist influence".[44] Sin's comments created a furor. Political Affairs Minister Perez responded that the Cardinal (who had just undergone major surgery) was "suffering from hallucinations" and was attempting to become a "Filipino Khomeini", prompting a prominent Catholic lay leader to ask rhetorically: "If Cardinal Sin is the Filipino Kohmeini, who is the Filipino Shah Pahlevi?"[45] Perez's attack, however, failed to intimidate the Archbishop, for in February 1983 he called the government's decision (presumably on the orders of the First Lady) to lift temporarily the ban on pornographic films to finance the Manila International Film Festival "capricious and arrogant", and labelled the "suspension of the law . . . an unjustifiable abuse of authority". Sin also maintained that the silence of Catholic lay leaders on the screening of sex films, particularly in view of the earlier uproar in 1982 over the publication of nude photographs of a well-known Filipina in the West German edition of *Playboy* magazine, was a clear indication of the existence of a pervasive "climate of fear stifling dissent" in the Philippines.[46]

In October 1982, following the killing of Fr. Zacarias Agatep, reportedly a member of the CPP, by the military in Ilocos Sur, Cardinal Sin called for a renewed dialogue between the bishops and the military to defuse mounting church-state conflict. Increasingly, individual bishops and religious superiors were voicing concern about actions taken by the military against some of the clergy, and Bishop Antonio Fortich, head of NASSA, said there appeared to be "an orchestrated effort" by the military "against the church".[47] Although Marcos and Enrile denied there was any attempt by the government to persecute the church, both issued stern warnings against the clergy engaging in anti-government activities, including providing assistance to subversive organizations such as the CPP/NPA, the MNLF, and the Social Democrats.[48] The church-military dialogue proved acrimonious, eventually breaking down, and despite official declarations that the church was not a target for persecution, the CBCP asked in December 1982 that the military's assurances be "substantiated, not with words but with concrete actions".[49]

The CBCP and individual bishops continued pressuring the government for reforms in 1983. In February, for example, the bishops issued a pastoral letter that, while warning the clergy against adherence to "political ideologies of any color", criticized the regime's economic development priorities, disregard for due process in arrests and detentions, and suppression of legitimate dissent in the name of national security and called on the government to institute fundamental reforms that "seek out . . . the root causes of the social disturbances of our time".[50] Cardinal Sin touched on many of the same themes in a speech to Filipino businessmen and government officials in March 1983, and suggested the formation of a 10-member council of reconciliation — composed of three members of the government (including the Prime Minister), three members of the clergy, and two members, respectively, from the political opposition and the private sector — that would advise President Marcos on important problems facing the country. The

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council, Sin hoped, would help dispel the "growing mutual distrust between government and the private sector" that was inhibiting "cohesion and coherence of policies".[51]

The bishops' conference also underscored the notion of reconciliation in three additional pastoral letters in 1983 and 1984. In August 1983, the bishops called for the abolishment of the Presidential Commitment Order (PCO), which allowed for persons to be detained indefinitely for reasons of national security, on grounds that it was "immoral", while the following November, because of continual social and political turmoil in the wake of the August 1983 assassination of former Senator Benigno Aquino, Jr., the prelates proposed a dialogue for national reconciliation. The achievement of reconciliation, the bishops stressed, required the restoration of freedom of the press and the right to dissent, the abolition of what were deemed to be repressive decrees, the holding of honest elections, and the elimination of corruption in government.[52] The bishops likewise stated in January 1984 that in light of the unsettled climate in the country, the decision of whether or not to boycott the 27 January 1984 plebiscite or the 14 May 1984 *Batasang Pambansa* (National Assembly) elections was a matter reserved to one's conscience despite the fact that voting is required by the 1973 Constitution.[53]

Cardinal Sin's admonishment of the regime increased following the Aquino assassination, for the Cardinal felt, given the circumstances of the Senator's return to the Philippines, that the government bore some responsibility for the murder. As a result, Sin declined an invitation to serve on the commission established by Marcos to investigate the killing, saying he would be little more than a "dissenting voice in the wilderness".[54] Furthermore, in his homily at Aquino's funeral, the Cardinal stated that the loss of freedoms had "reduced the Filipino to being an exile in his own country", and called on the government to "liberate" the people from the "tyranny and oppression" which was contributing to "violence and division" in the country.[55] Sin repeatedly asked for reconciliation based on an impartial investigation of the Aquino assassination, the holding of honest elections, and the restoration of basic freedoms. Starting on 19 September 1983, he initiated, in the Archdiocese of Manila, a daily noon-time period of five minutes of prayer for justice and peace.[56] He also gave his blessings to Radio Veritas' airing comprehensive coverage of political events in the aftermath of the Aquino murder and to the establishment of a new newspaper, *Veritas*, dedicated to the principles of a free press.[57] And in early 1984, Sin warned Marcos, whom he reportedly referred to as a "proud and arrogant man", of the potential for violence unless the May 1984 National Assembly elections were conducted fairly and honestly.[58]

The regime's reaction to the bishops and other church officials was mixed. At times, Marcos indicated a desire for closer church-state relations. In February 1983, for instance, he suggested that the nation's religious groups participate in the government's socio-economic programmes, such as technical and vocational training, agricultural and industrial development, and the *Kilusang Kabuhayan sa Kaunlaran* (KKK or National Livelihood Movement), and in August 1983, he repealed the PCO, which forestalled the distribution of the CBCP pastoral letter

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calling for its abolishment.[59] He also met from time to time with high level church delegations. But the President's gestures were viewed primarily as attempts at co-optation rather than conciliation. Accordingly, the bishops gently rebuffed the offer to participate in government socio-economic reforms, emphasizing the church's own social action programmes. Some bishops, along with other church officials, were offended by the fact that the PCO was replaced by an equally unacceptable Preventive Detention Action (PDA).[60]

Although the President denied in November 1983 the existence of any church-state animosity, his rhetoric and actions as well as those of other government officials belied such a claim.[61] In April 1983, Marcos dismissed the Roman Catholic bishops as "irrelevant to our society and to social reality" after they declined to participate in the government's socio-economic programmes, and the following June Defense Minister Enrile averred that the local Catholic Church in the Davao City region was infiltrated by communists.[62] In response to Cardinal Sin's increasingly trenchant criticism in the aftermath of the Aquino killing, officials with close ties to Malacañang indicated the "possibility that the prelate is a Communist", while other reports suggested that Sin himself might be a target for assassination.[63] But perhaps the strongest attack on the Roman Catholic Church was Marcos' 25 September 1983 speech in which he said:

> We have arrested and liquidated three echelons of leadership of the communist party. The same thing is true with the Catholic schools and clergy. Very patiently, we asked them not to engage in demagoguery or to utilize the facilities of the church as well as the schools to mesmerize and mislead our small children. There are reports coming to me to the effect that the teachers and even nuns and priests in the Catholic schools are teaching the children hatred — hatred against Marcos, hatred against the government.[64]

Sin defended the position taken by the church by pointing out that helping the youth to "know the real situation in the country . . . is not teaching hatred", and in December 1983 denounced the regime for engaging in wanton extravagance, asserting that the problems facing the country were not external in origin but rooted in lack of morality on the part of the current leadership. Within days of Sin's speech, General Fabian Ver, Chief-of-Staff of the Armed Forces of the Philippines (AFP) and a Marcos relative, revealed that secretly obtained documents demonstrated the existence of a "clergy-bourgeoise clique" plotting to overthrow the government.[65] Thus it is clear that in the absence of fundamental reforms, which, as the bishops argued in February 1983, "seek out . . . the root causes of the social disturbances of our time", the conditions drawing some priests and nuns to Marxism will remain and additional church-state conflict can be expected in the future.[66]

The Context of Church-State Conflict

As with military crackdowns on church activists under martial law, the current

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antagonism between the church and the government has not united the church. Within the CBCP three political divisions — conservative, moderate, and what can be called the progressive — can be identified. The conservatives and the moderates comprise 77 per cent of the hierarchy and tend to have an ecclesiological outlook that stresses the sacred mission of the church in providing a refuge for the fulfillment of religious needs and an avoidance of involvement in temporal affairs. Conservative and moderate bishops are also older and occupy the highest positions in the hierarchy, and have typically controlled the CBCP and its executive board. In contrast, the progressives are a minority making up only 19 per cent of the hierarchy, and in general are younger than the conservatives or moderates, hold none of the church's highest offices, and often administer bishoprics in frontier areas of the country. They also tend to adhere to the "community of liberation" model of the church that emphasizes social action and work with the poor.[67]

Agreement on the role of the church in society is also lacking elsewhere in the Philippine Roman Catholic Church. Although the majority of priests and nuns tend to advocate non-involvement in temporal matters — thereby supporting the status quo — a number of organizations and religious orders, such as the Association of Major Religious Superiors of the Philippines (AMRSP), the Jesuits, the Columbans, the Maryknoll Fathers, and the Good Shepherd Sisters, are progressive and have worked actively on behalf of the poor. Progressive priests and nuns have been more outspoken in criticizing military misconduct and government programme failures, and as a result, have more frequently been targets of military crackdowns, including arrests, detentions, and raids.

While Protestant organizations generally have a lower social action profile, in part because of their small numbers and in part because of the existence of a large number of non-ecumenical sects (at one time numbering more than 200) that are considered conservative on social justice issues, the Commission on Development and Social Concerns of the NCCP as well as a few other Protestant organizations have for some time been engaged in social justice work and advocacy for the poor. In addition, a minority of Protestant pastors and laymen (primarily located in the metropolitan Manila area) have periodically stood up individually and in co-operation with progressive Catholics against social injustices, and have supported unpopular (and sometimes risky) undertakings such as operation *Paglingap* (Care), a programme for political prisoner families. As dissatisfaction with the Marcos government grows, there are signs that progressive Protestants are becoming more receptive to arguments that advocate a restructuring of Philippine society to alleviate social, economic, and political injustices.[68]

Although divided politically, the Catholic and Protestant Churches, especially since Vatican II, have made a commitment to help the poor and marginalized attain a better life. No longer were pleas to the rich to share their wealth or to take up charitable works enough. Instead, the churches turned to social action programmes that emphasized self-help projects, such as organizing co-operative associations initiating health and sanitation improvements and supporting small-scale agricultural projects and cottage industries, in the late

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1960s. However, when it became evident that self-help projects were benefitting the relatively better-off, while companion community development programmes often failed once the outside organizers departed, leaving the vast majority of the poor unaffected, the emphasis on social action programmes shifted to a stress on human development through the creation of Basic Christian Communities (BCC), modelled after the *Comunidades cristianas de base* originating in Latin America.[69]

The establishment of BCCs has added a new dimension to the churches' social action thrust, for persons are encouraged to participate in decisions that affect them directly — both within the church and the community — through a process described by Bishop Claver as "discernment, involvement, and shared responsibility".[70] Thus the BCCs provide a context not only for discussing church and community problems in terms of the Gospel, but also for engaging in collective action in the search for solutions. As a consequence BCC participants often have developed heightened senses of dignity and power, and are increasingly demanding a larger voice in local planning and decision-making. Accordingly, the BCCs, which now number in the thousands nation-wide, are helping to break the dependency syndrome of the marginalized and dispossessed by assisting them in becoming the instruments of their own uplift, and, as such, the Christian communities are formidable agents for change.[71] Given the colonial heritage of the Philippines and continued governmental paternalism, such a form of democratic participation in the local church and community is truly revolutionary in style and has resulted in conflict between church officials and layworkers active in BCC formation and the government.

Almost from the beginning of the churches' shift toward establishing BCCs, the government and the military perceived the programme as a threat to the established political order. Such uneasiness is underscored by several government reports that have surfaced between 1975 and 1983, attacking Latin American "liberation theology" and conscientization, alleging some progressive bishops are allied with world revolutionary communism, labelling the BCC movement as "dangerous", and branding many social action groups as little more than communist fronts. Also contained within the reports are recommendations that the work of church social activists and the organization of BCCs be suppressed, and, similar to the "Banzer Plan", developed by General Hugo Banzer Suarez, former President of Bolivia, were recommendations that church progressives be isolated and attacked individually in order to reduce negative reaction from the church hierarchies (especially the CBCP), which are essentially conservative.[72]

An emphasis on social justice and the establishment of BCCs is a common thread running through the arrests of priests, nuns, pastors, and layworkers as well as the raids on church institutions since 1972. Much of the church-state conflict since the termination of martial rule in 1981 must be viewed in this context, for there are indications that the government and military equate working with the poor and the organization of BCCs with support for the CPP/NPA. This in turn would appear to have arisen because of the government's apprehension that the church and its social programmes are being exploited by the communist under-

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ground, using its familiar united front tactics. It is true a small number of clergy are members of, or sympathetic to, the CPP, as Cardinal Sin has admitted on several occasions, but to equate social action programmes and BCC formation with general subversion is to ignore the Catholic and Protestant Churches' legitimate concern for the poor.

Although the churches are divided politically, the commitment to social justice and total human development, especially for the poor and marginalized, has not diminished. Thus as long as the government and military continue to suppress church activists and Basic Christian Communities, particularly without evidence of wrongdoing or "subversion", conflict with the Catholic and Protestant Churches is inevitable.

NOTES AND REFERENCES

1. This article is a revision of a paper presented at the annual meeting of the Association for Asian Studies, 24–27 March 1983, Hilton Hotel, San Francisco, California.
2. *Bulletin Today*, 27 January 1983, pp. 1, 6; *Far Eastern Economic Review* (*FEER*), 10 February 1983, pp. 10–11; and *New York Times*, 17 February 1983, p. 3.
3. Catholic Bishops' Conference of the Philippines (CBCP), "A Dialogue for Peace", 20 February 1983, mimeographed.
4. *Foreign Broadcast Information Service* (*FBIS*), IV, 21 January 1981, p. P2.
5. *Asiaweek*, 16 January 1981, p. 14; and *Asian Wall Street Journal*, 16 February 1981, p. 2.
6. *FEER*, 20 February 1981, p. 9; *Asiaweek*, 27 February 1981, p. 30; and *New York Times*, 17 February 1981, pp. 1, A9.
7. Among sophisticated Filipinos, John Paul II's remarks at Malacañang that national security concerns cannot justify human rights violations was considered a strong rebuke of Marcos, for in the Philippine context, one usually goes to great lengths to avoid criticizing one's host. Since the Pope was thoroughly briefed prior to the trip, the speech was not an inadvertent *faux pas*. Marcos was obviously embarrassed: he put aside his prepared statement and apologized for " 'petty and small' church-state differences" and asked for forgiveness, indicating he would work for a more harmonious society "to attain the ends of God" (*New York Times*, 18 February 1981, p. 1). Church activists, in turn, saw the Malacañang speech as a signal of continued papal support for their social justice work, even though John Paul II warned priests and nuns against a preoccupation with temporal affairs. (I am indebted to Bishop Francisco Claver, S.J. for explaining, during a private conversation with me on 7 December 1983, these nuances in the interpretation of the Pope's comments.)
8. *FBIS*, 24 April 1981, p. P5. The term New Society generally refers to the martial law period, 1972–81, while the term New Republic refers to the post martial law period, 1981-present.
9. As quoted in the opening remarks of Jaime Cardinal Sin to the Catholic Bishops' Conference of the Philippines (CBCP), Baguio City, 27 June 1981.
10. *FBIS*, 30 June 1981, p. P3.
11. *Filipino Reporter*, 24–30 April 1981, pp. 1, 4 and 1–7 May 1981, pp. 1–2.
12. A "lost command" is a military unit, usually made up of misfits, that operates outside of the normal chain of command, and is often associated with the murder of so-called "subversives" and persons considered anti-government.
13. *Ichthys*, 1 May 1981, pp. 1–11; 15 May 1981, pp. 5–7; and 24 July 1981, pp. 1–3; and *Impact*, December 1981, pp. 429–31.
14. *FEER*, 17 July 1981, p. 6; 4 September 1981, p. 6; and 2 October 1981, pp. 32–33; *Ichthys*, 28 August 1981, pp. 1–2, and *Philippine News*, 4–10 November 1981, pp. 1, 8.

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15. *Political Detainees Update* (PDU), 28 February 1982, p. 2, and *NCCP Newsletter*, January-February 1982, pp. 1, 4.
16. *PDU*, June 1982, pp. 1, 4.
17. *PDU*, 15 September 1982, pp. 1, 6.
18. *PDU*, 15 September 1982, pp. 3, 6; 30 September 1982, p. 1; and 15 October 1982, p. 1; and *Columban Mission*, January 1983.
19. *PDU*, 31 October 1982, p. 1.
20. *PDU*, 15 May 1983, pp. 1, 8.
21. *NCCP Newsletter*, March-April 1982, pp. 3–5, and January-February 1983, pp. 1, 7–8. Ocampo and Enrile were released after two months, while Marisigan remained in detention until January 1983.
22. *PDU*, 15 October 1982, p. 7; and *National Catholic Reporter*, 1 October 1982, pp. 1, 15.
23. *Columban Mission*, January 1983; *PDU*, 15 March 1983, pp. 1, 5, 8; and *FEER*, 24 March 1983, p. 34.
24. *Philippine News*, 11–17 May 1983, p. 4 and 25–31 January 1984, p. 6; and *FEER*, May 19, 1983, p. 10.
25. *Bulletin Today*, 13 December 1982, pp. 1, 20; and *Times Journal*, 31 December 1982, pp. 1, 6.
26. *Bulletin Today*, 15 December 1982, pp. 1, 15; *Philippine News*, 29 December 1982 — 4 January 1983, pp. 1, 8; and speech of Fr. Louie G. Hechanova, C.Ss.R. before the Rotary Club of Cebu, 6 January 1983, mimeographed.
27. *Filipino Reporter*, 6–12 January, pp. 1–2. There are reports that Kangleon was offered the rank of captain as a military chaplain as an inducement for his confession.
28. Concerned Citizens for Human Rights (Samar), *Samar Island and the Northern Samar Integrated Rural Development Project: Development for the Poor Samarenos* (Sydney: Catholic Commission for Justice and Peace, 1982).
29. *Sydney Morning Herald*, 29 June 1982, p. 1 and 7 July 1982, p. 7.
30. *Asian Bureau Australia Newsletter*, November 1982, p. 1. For additional information on communist manipulation of the church in connection with the CCJP-funded research in Samar, see the letter of Juan Ponce Enrile and the response of Chris Sidoti, the National Director of the CCJP, in the *Catholic Weekly*, 30 January 1983, pp. 10–11, 27.
31. *PDU*, 31 March 1983, p. 12; and *Asian Bureau Australia Newsletter*, April 1983, p. 7.
32. *PDU*, 15 April 1983, pp. 1–2; and *Philippines News*, 20–26 April 1983, pp. 1–2.
33. *PDU*, 15 April 1983, pp. 3–5; and *FBIS*, 28 April 1983, p. P1.
34. Letter of Karl Gaspar to Philippine bishops, 12 April 1983, xeroxed. The military held Gaspar incommunicado for a week, denying any knowledge of his whereabouts, and refused to allow visits from his family for two weeks.
35. *PDU*, 30 June 1983, p. 1; 15 July 1983, pp. 1, 6–8; and 15 August 1983, pp. 1, 7.
36. Maryknoll Justice and Peace Office, Maryknoll, New York, "Phone Message Received from Jack Walsh, M.M. — Davao City, Philippines, September 1, 1983", xeroxed; and letter from Karl Gaspar to friends, 25 September 1983, mimeographed.
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38. At the time of the raid, Bishop Purugganan noted that the front door latch to his residence was unnecessarily damaged and that the search warrant lacked a proper serial number and court seal, while the 6 September 1983 "NASSA Statement of Protest" pointed out the raid violated "the long-standing agreement between the Church and the military that no raid of any church establishment shall be effected without prior coordination with the highest ranking religious leader in the area". *NASSA News*, Special Issue, September 1983, p. 4.
39. Ibid., pp. 1–6; and *San Francisco Sunday Examiner & Chronicle*, 11 September 1983, pp. A1, A17.
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42. *NASSA News*, August 1982, pp. 2–5; and MSPC *Theological Articles*, February 1983, p. 4.
43. *Asia Record*, January 1982, p. 10 and April 1982, p. 12; and *FBIS*, 1 March 1982, p. P1.

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53. The full text of the pastoral letter is reprinted in the *Philippines News*, 1–7 February 1984, p. 7.
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58. *Philippine News*, 1–7 February 1984, p. 7.
59. *Asiaweek*, 1 April 1983, p. 13; and *New York Times*, 7 August 1983, p. 4.
60. *FEER*, 25 August 1983, p. 14. The major difference between the PCO and the PDU is that under the latter one can be held for a year, not indefinitely, but the PDA still allows the authorities to bypass the judiciary in the arresting and detaining process.
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The New French Socialist Foreign Policy and Indochina

ERIC TEO

Mr Francois Mitterrand was elected France's fourth President under the Fifth Republic on 10 May 1981 with a special vow to change the society. French foreign policy was hence inevitably in the thrust of a socialist transformation where a new Third World policy seemed to be the trademark of Mitterrandism in external affairs. This is especially significant in France's Fifth Republic, as foreign policy remains one of the twin pillars of presidential action, a notion moulded in practice by the Fifth Republic's founder, General Charles de Gaulle.

What is Mitterrand's new policy and view on Indochina? Is it a reflection of a new socialist doctrine in world diplomacy and is it different from the previous regional policy of Valéry Giscard d'Estaing? What are the factors that have motivated this change and what are its effects on these three communist governments and within the region?

A New Socialist Policy for the Third World

France was the colonial master of Indochina for almost a hundred years, from the days of Jules Férry's Tonkin expedition till the catastrophic fall of Dien Bien Phu on 7 May 1954. With the signing of the Geneva Agreement (21 June 1954), Premier Pierre-Mendès' France virtually pulled France out of the "Indochinese swamps", putting an end to a sad chapter in French decolonization (though the Algerian episode was soon to begin and bog France down just four months after Dien Bien Phu). The Americans went in to replace the French in 1955 with the "Dien experience" and also progressively became embroiled in the political morass of South Vietnam, Cambodia, and Laos. It is important to note that during the period of American involvement in Indochina, France was very much linked to the fate and future of the region — Paris was the venue of the official talks between Hanoi and Washington,[1] and the series of secret meetings between Kissinger and Le Duc Tho, as well as the venue of the International Conference on Indochina held at Hôtel Majestic at Avenue Kléber in Paris between 27 February and 2 March 1983.

It is also important to note that the French Left were very involved in lobbying for an American retreat from Vietnam between 1967 and 1975. In the front line was the French Communist Party (PCF), with its socialist brethren clearly more discreet,[2] and a conglomeration of extreme-leftist Trotskyite and Maoist groups who were in perfect *désaccord* with the PCF. After the end of the war in early spring 1975 (following the fall of Phnom Penh on 17 April 1975, and

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the fall of Saigon on 30 April, henceforth known as Ho Chih Minh City), Giscard's France recognized the Khmer Rouge government in Phnom Penh and the provisional government in South Vietnam,[3] amidst the Left's urgings and applause. Just before the official reunification of Vietnam by the North, Premier Pham Van Dong came to Paris on an official visit in April 1977. However, relations between Paris and Vientiane were severed in June 1978 and six months later, Paris broke all ties with Phnom Penh, refusing to recognize the Heng Samrin government installed by Hanoi after having routed out Pol Pot and the Khmers Rouges. Giscard d'Estaing hence shifted towards ASEAN in his dispute with Indochina, freezing all aid to Hanoi in 1979 and calling for a retreat of Hanoi's invading troops from Cambodia in the EEC-ASEAN "Common Declaration on Political Questions" signed by Olivier Stirn, France's Deputy Foreign Minister, at Kuala Lumpur on 27 March 1980. Since the armed intervention committed openly against Cambodia by Vietnamese troops,[4] the last 28 months of Giscard's Southeast Asian policy were hence marked by a new *rapprochement* with ASEAN, troubled relations with Hanoi, a complete freeze in diplomatic links with Vientiane, and the non-recognition of the Vietnamese-supported Heng Samrin regime in Phnom Penh.

As for a new foreign policy in the Third World since 10 May 1981, the 110 propositions of candidate François Mitterrand, published during the presidential election campaign, did not mention any distinct Third World policy, apart from his insistence on a new "priority to be given to the North-South Dialogue and privileged relations with non-aligned countries in the Mediterranean zone and in the African continent, especially Algeria".[5] With respect to the Kampuchean crisis, Mitterrand called for "the respect of the sovereignty of Cambodia" in proposition 5. Two new elements have henceforth been added to the new socialist foreign policy which the President conferred on Claude Cheysson, a former Commissioner in Brussels for the EEC's development policies in the Third World. (In fact, Cheysson is the man who negotiated the two Lomé Conventions to date, linking the 10 European nations to 51 countries from Africa, the Caribbean, and the Pacific.)

The first element that has since appeared was the clear determination of Mitterrand to be the inspiring force of the developed world's dialogue with developing nations from the South — hence a clear shift towards more "Tiermondisme" (or Third World). In fact, in an interview with Claude Estier, Mitterrand said in February 1981 before his election to office, "We still live under the reign of a classical diplomacy a little cold and indifferent. It seems to me that the current French diplomacy takes in little account of Third World development, of what we call non-aligned countries and unfortunately, this diplomacy does not see the birth of this world which would become dominant in the 20th century. . . . We [socialists] will open our eyes with regard to these problems!"[6]

The second element was a new theory in French Third World policy based on what is commonly known as the "Theory of the Three Lieutenants" (which in turn is based on geographical choices). French action must henceforth be hinged on

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dominant Third World countries (all socialists or left-leaning) in three regions: Mexico for the Americas, Algeria for Africa, and India for Asia. Mitterrand's rapport with Presidents Portillo, Chadli, and Premier Indira Gandhi are notably excellent and his official visits from Cancun to New Delhi, all within the first 18 months of office, were further proof of his vision that French action concentrated on and then radiated from these three key Third World countries would be most profitable.

A third element, more difficult to prove, would be Mitterrand's determination to "balance" French foreign policy, seen to be lopsided, which largely neglected the Asian-Pacific Zone in favour of Africa during Giscard's term at Elysées Palace. The respected Parisian newspaper, *Le Monde*, cited a special meeting of all important ambassadors from the Pacific Zone in Spring 1982 at the Quai d'Orsay (Ministry of External Affairs) convened by the President. This suggested that it could be the beginning of a new shift in French foreign policy.[7] However, to date, no significant and concrete changes or initiatives have taken place — instead, France's foreign policy has been geared towards Europe, Lebanon, and Chad.

In a recent interview with the newspaper *Libération*, Claude Cheysson said that France would "try to be present [in the Asian-Pacific Zone] but with no illusions, as she cannot be a great power in the zone anymore. It is even sure that France could be there as a middle-sized power, if one were to take into account the geographical distance between Paris and the Pacific. . . ."[8] If France wants to maintain a certain presence in this region, cited as the "New World centre",[9] the sticky Cambodian problem has to be clearly evaluated in its foreign policy. An ambiguous policy towards ASEAN and Indochina would not enable it to play an important role in the whole Asian-Pacific Zone. Hence, Indochina could either be Mitterrand's trump card to further French penetration and prestige in the region or a true thorn-in-the-flesh for Paris' regional ambition in this zone. The French President appears fully aware of this problem.

A Shift in Paris' Indochinese Policy since 10 May 1981

Since taking office in May 1981, Mitterrand has shifted French policy in Indochina towards a warmer relationship. Diplomatic relations were re-established with Vientiane on 8 December 1981 and two weeks later, Paris signed a new Economic Aid Protocol with Hanoi, promising 200 million francs of credit per year, to Vietnam. However, at the United Nations General Assembly in October 1982, Paris once again refused to recognize either the Heng Samrin regime in Phnom Penh or the "Democratic Kampuchea" coalition formed under the presidency of Prince Sihanouk and including Son Sann and Khieu Samphan, bringing together the three anti-Vietnamese groups opposed to Heng Samrin. During Premier Mauroy's official visit to Malaysia in December 1982, he tried to avoid the Cambodian issue with Prime Minister Dr Mahathir and concentrated solely on

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economic issues between the two countries, just as during François Mitterrand's numerous meetings with Premier Suzuki during his official visit to Japan (14–18 April 1982). In March 1983, Claude Cheysson attended the Fourth ASEAN-EEC Ministerial Meeting in Bangkok, where Paris was in disagreement with ASEAN over the wording of three of the eleven paragraphs that dealt with Indochina and Cambodia in the Final Declaration published on 25 March 1983.[10] Said Mr Gazhali, the Malaysian Foreign Minister, "The most significant success was the official condemnation by France of the Vietnamese invasion of Kampuchea. Paris dragged its feet regarding this subject, but when its Foreign Minister came, the question was resolved."[11] However, the situation flared up again when the Vietnam News Agency reported Cheysson as saying at a press conference in Hanoi at the end of his 24-hour visit on 26 March 1983 (the first made by a French Foreign Minister since the December 1978 Vietnamese invasion of Cambodia) that France "does not wish that Vietnamese troops leave Kampuchea for fear that unprecedented horrors committed by the Khmers Rouges would once again be repeated". After this incident and even after Cheysson had clearly reaffirmed his support for the U.N. resolutions demanding the retreat of foreign troops from Cambodia, *Le Monde* believed that he had already modified, "in its form if not in its philosophy, France's position on Cambodia" and brought to light his "apparently contradictory positions".[12] ASEAN and China were deeply shocked by Cheysson's statement and when the Thai Ambassador in Paris demanded an explanation on behalf of ASEAN, the Quai d'Orsay quickly and simply refuted the Vietnamese translation of Cheysson's statement. This incident was in fact even more crucial as Prince Sihanouk was to be received in Paris on 27 April 1983 and the French President was to visit China officially from 3 to 7 May. Fortunately, Prince Sihanouk's visit to President Mitterrand and his warm reception at Elysées Palace "dissipated all possible misunderstandings".[13] Mitterrand received his "eminent Khmer guest with all the trimmings of a Head-of-State — a reception, Republican guards, mounted police, but no flags and no hymns".[14] *Le Monde* claimed that "Elysées wanted to give a Cambodian dimension to its policy in Southeast Asia". During a toast proposed by Cheysson on the evening of 27 April, he referred to his guest as "the symbol of patriotism with a historical dimension" and declared notably that "independance, liberty and neutrality should remain the fundamental principles of the future of Cambodia in close co-operation with her neighbouring countries, all acting in total independence" and claimed that "France would maintain excellent relations with all parties so as to allow Paris to contribute to the establishment of all dialogues in the future". (This is reminiscent of Charles de Gaulle's famous "Phnom Penh Speech" in September 1966.) During his meeting with the Prince, Mitterrand too recalled their previous meeting in Pyongyang on 15 February 1981, during his visit as the Secretary-General of the French Socialist Party to China and North Korea, and once again promised him that he would not recognize the Heng Samrin regime "even in the long run".[15]

The most comprehensive explanation of France's Cambodian policy was, however, given by President Mitterrand during his official visit to Beijing from 3 to

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7 May 1983. Before his visit, Premier Zhao Ziyang gave an interview to two French television channels, TF1 and A2,[16] during which he "criticised the soft policy of certain countries with regard to Vietnam". "From the moment one refuses to admit the *fait accompli* of the Vietnamese occupation of Kampuchea, and if one wishes to force Vietnam to withdraw from this country", he added, "there is no other way than to increase international pressure, support the resistance movements of the Kampuchean people and increase the difficulties of Vietnam, so as to force Hanoi to abandon its policy of forming an Indochinese federation." Two days later at a banquet in the Great Hall of the People, President Mitterrand himself made a 45-minute speech, detailing Paris' official position to his Chinese hosts, "with precision, concentration and special attention to frankness, commonly reserved for private meetings".[17] The President evoked on the one hand the awful memories of Pol Pot's "bloody regime, inexcusable to French eyes" and on the other, "the intelligent direction" of Prince Sihanouk. He added: "Let it be clear; we will not change our language according to evolving circumstances". (Mitterrand hinted at Giscard d'Estaing's ambiguities since 1979 — *un certain flottement*.) He believed too that no solutions could be found without the withdrawal of all foreign troops from Cambodia.

To Premier Zhao's concern about French aid to Hanoi, President Mitterrand asserted that France, having "a sense of responsibility in this region" was ready "to guarantee, with others obviously, the setting up of a process which would resolve the conflict". As to his views on the Khmers Rouges, the President added rather ambiguously that "it is agreed to put those who had formerly seized power in the blood of their people back on to the right track". Jean-Yves Lhomeau and Manuel Lucbert in an article in *Le Monde* suggested that this phrase could mean that France could in the future include the representatives of the Khmers Rouges in its ultimate search for a solution. Premier Zhao also hoped that France, with important links to Indochina through history, economy, and culture, would play a role in forcing Vietnam towards respecting the resolutions adopted by the United Nations. It is obvious that, even if Paris and Beijing hope to see Cambodia retrieve its independance and sovereignty, the two capitals "do not see eye to eye on the means of achieving this objective".[18] Finally, was the "Sihanouk card" seen as a long-termed apeasement policy towards Beijing, a new true pillar in Mitterrand's Indochinese strategy, or was it purely circumstancial for the success of his Beijing trip? On the other hand, Hanoi seemed to have rejoiced at "the western camp's division"[19] following the Bangkok EEC-ASEAN meeting and it was possible that in spite of Sihanouk's reception at Elysées and Mitterrand's visit to Beijing, Hanoi saw no danger in launching a spring offensive on 30 March 1983, simply four days after Cheysson left Hanoi. In an editorial in *Le Monde*,[20] a question was posed: "Has France the means of practising a grand multiple-level Asian policy? Wanting to play the 'Vietnamese card' too openly and all alone, Paris takes the risk of alienating itself from China and ASEAN!"[21] Mitterrand seems to have too many aces at hand (Sihanouk, Hanoi, or ASEAN) and up until now, he seems to be in a more balancing position than Giscard d'Estaing in 1979–80. Which card will he

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deal next seems to be the complex question in this great *casse-tête chinois* (insoluble Chinese maze)!

A Possible Explanation for This Shift towards a More Balanced Position

Whether this shift in France's relations with Indochina has deeper roots in the philosophy of the French Left, the French President personally, or the few men who influence his choice in the field of foreign policy is debatable. Did the Communist Party have a hand in this? First of all, it must be clearly noted that the present government is one of a coalition between socialists and communists. It is hence predominantly a socialist government with a relatively important communist participation and this contract of governmental partnership was "sealed" in a document negotiated between the two Party-Secretaries, Jospin and Marchais, in June 1981.[22] No mention was made of Indochina, hence no socialist commitment was made to the PCF with regard to the Cambodian question. A second point worth noting is the present composition of the Parti Socialiste (PS): at Epinay in 1971, the present party was formed by uniting four *courants* or factions with different political, historical and ideological tragectories and affinities and this could have weighed heavily on the choice of Paris' relations with Hanoi, Vientiane, and Prince Sihanouk.

Looking back at history, the French Left were well implicated in Indochinese history in its struggles for independance. Nguyen Ai Quoc (Ho Chih Minh) was present at the historically famous "Congrès de Tours" (December 1920) that saw the Left split up into communists (pro Third International) and "socialists" opposed to the majority's affiliation to Moscow's direction. This sentiment came out repeatedly during the American involvement in Vietnam, when as a mark of respect and gratitude to Uncle Ho (who was in Tours with the French Left in their crucial moment), the Left demonstrated in the streets supporting Ho as if he were a proletarian "saint". The universal image of Ho Chih Minh and of Vietnam's struggle[23] united the French Left in a certain outburst of enthusiasm, not only against U.S. Presidents Johnson and Nixon, but also against de Gaulle and Pompidou, the most impressive show of united strength being the famous May 1968 strikes and the grandiose giant demonstrations in the capital against American bombings of Hanoi in December 1972 and Richard Nixon's 1973 inauguration.

The PCF maintained its links with the Communist Party of Hanoi from the beginning of its independance struggles in 1931. Even at the latest Fifth Congress of the Vietnamese Communist Party in December 1982, the PCF was represented by Paul Laurent, a member of the Politburo. During the war, the PCF's Secretary-General, Georges Marchais, even flew to liberated zones in South Vietnam in November 1973 to lend his moral support to Vietcong troops. As for the socialists and radicals (a moderate centre-left party), they remember Pierre-Mendès France who, in 1954, gave independance to Vietnam (above the 17th parallel latitude) and pulled France out of Indochina and its colonial past: in fact, Mitterrand, a former

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Minister for Colonies in 1950, is himself very much attached to Mendès France and could very well share his "Indochinese sympathies". Mitterrand declared in "La France: Présence et Abandon":[24] "Preferring war to what we already called an abandon, we accorded much more to Bao-Dai in 1949 than what we refused earlier in 1946 to Ho Chih Minh". In "Ma Part de Verité",[25] he added, "General Charles de Gaulle [in 1946] fixed the basic directions of France's Vietnam policy, a policy which Admiral Thierry d'Argenlieu put to application right to the last note: war . . . against the opinion of General Leclerc." These two texts indicate that Mitterrand felt that past French errors caused the war and consequently all the sufferings of the Indochinese people; is there still a sense of guilt with respect to Hanoi and Ho Chih Minh? As to the question on whether President Mitterrand is a hostage of his Communist partners, there are no doubts that he is not bound to them. Over a range of international problems, Mitterrand has taken stands contradictory to those of the PCF in spite of its strongly voiced protests over Euromissiles, France's nuclear defence policy, and the Atlantic tilt towards Washington. The French President has courageously faced up to communist moanings and verbal attacks by challenging to quit the government if they were not happy; so far at each dispute, the communists have always inexorably backed down in the face of Mitterrand's ultimatums.

As for the Socialist Party today, different factions have different attitudes of sympathy for Vietnam and Hanoi. Amongst the Mitterrandists, (*Courant A*), P. Joxe and C. Estier[26] could be seen to be more pro-Vietnam than, for example, C. Hernu or G. Deferre.[27] In Premier Mauroy's *Courant B*, there is less inclination towards a Hanoi tilt; just as in the two remaining factions, the Vietnamese inclination could be much stronger — Agricultural Minister Rocard's *Courant C*, who came over from the PSU,[28] an extreme leftist group, and finally J-P Chevènement's CERES,[29] the left wing of the socialist family. The key man with regards to the question of attitudes of sympathy for Vietnam and Hanoi is none other than C. Cheysson — the pragmatic Foreign Minister who (like the President) believes that "Indochina is a fortress of the Francophony in Asia". But he adds, "This may not last a long time as the people grow old and die. It is hence essential for France to help to maintain this Francophony . . . as it is considered in Vietnam and in Cambodia as an element of originality . . . [if not] independence".[30] Besides this, the principal reason frequently brought forward by socialists is that if Hanoi is shouldered by Paris, Vietnam could be tempted to break loose from its present Soviet dependency, the same argument presented by Paris to Washington concerning its previous arms deals with Sandinista Nicaragua. But this new climate of diplomatic relations certainly bears the imprints of yet another man: President Mitterrand's special councillor for the Third World, Régis Debray, a former Ché Guevara, with links to Latin America's numerous revolutionary upheavals and a friend of Fidel Castro and the late Allende. Bangkok's *The Nation* once branded him the "bad genie" of Elysées![31]

However numerous explanations there may be, the fundamental reason is still clearly embodied in the words of Claude Cheysson, when he referred to

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Indochina as the "Fortress of French influence in Asia"[32] the sentimental, historical, and cultural link with Paris remains too strong, especially for a socialist government to break ties with a former member of "Union Française", given independence by a former radical-socialist (centre-left) premier in 1954; the "vestiges" of French colonialism still linger today in strong bonds between Paris and its former colonies of the Middle East (Lebanon), North and Black Africa, as well as Indochina. Hence, former French Indochina, "washed in French culture and civilisation for almost a hundred years" could not in socialist eyes be excluded from its influence, especially when it is Paris' last ace in the region, progressively dominated by the Americans, Soviets, Chinese, and Japanese.

Looking at French public opinion after 1954, there is a certain constancy with regard to Indochina and one can discern certain views which concur more or less with those of the socialist government. The sentimental link between the French people and Indochina is obvious: the impressive replica of the Angkor Wat at Paris' Colonial Exposition in 1931 still evokes sentiment, as do the graceful Cambodian dancers and the exotic trishaws from Saigon; some still conjure up the typical picture of a hard-working and tranquil people, descendants of a high "mandarin" civilization, impregnated with French civilization and benefiting from French progress and modernization; others, born after the war cherish the symbol of a little Vietnam struggling for its life and for a universally just cause against America's imperialism. With these images in mind, one can understand the sympathies that poured out for the Vietnamese and the Cambodian peoples during the Christmas bombings by B-52s in North Vietnam in 1972, the tragic flow of refugees following the fall of Phnom Penh and especially Danang, Hue, Xuan Loc, and Saigon in Spring 1975, and finally the drama of the "boat-people" in 1977–79. Besides, the large number of refugees living in France at present is a constant reminder of this strong link and excessive sentimental attachment, as well as a certain sense of past guilt exorcised but still vivid in the minds of many. Even the Right in France recall rather frequently that French influence was lost because France was "chased out" of South Vietnam by the Americans after 1955 and many today still strongly believe that the Indochinese peoples still want and need French influence and a come-back, as the French press have pointed out with nostalgia with reference to the fall of Saigon.[33] Hence the Right also believe that links with Indochina must be kept even if only for sentimental reasons, although it is openly hostile to the Hanoi government.

* * *

The Left today call for a certain sympathy towards Indochina on the whole, in spite of diplomatic disagreements over Cambodia, bringing forward historical and humanitarian reasons for helping the refugees as well as the population as a whole, under communist rule. During the 10-year struggle for peace in Vietnam, the French Left lived with a high rate of mobilization in these "heydays of Vietnam",

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following closely the Paris Conference, "the publicity given to" Le Duc Tho and Mrs Binh, who have both left glittering memories in their minds. As for the Cambodian problem, socialists, radicals, and communists lived through the lost illusions of their vehement support for the Khmers Rouges, whose genocide still lives today as vivid scars in their moral conscience; this might be the principal reason for not recognizing Sihanouk's DK Coalition which includes Khieu Samphan? A once enthusiastic supporter of the Khmers Rouges, Jean Lacouture,[34] lives today in uneasiness over his past errors in supporting Khieu Samphan. This probably underlines the French Left's allergy towards the Khmers Rouges. This is so, for both the Right and for the French people as a whole, aghast at a revolution turned atrociously bloody. The feeling is made stronger, since it is a deep disappointment after the French had been impressed by the Angkor civilization and after Cambodia had been influenced by French culture. Is it then the case of a tragic love affair turned sour (between the French Left and the Khmers Rouges) which is reflected in the present governmental position? Or is it simply a question of false morality and machiavelistic diplomacy?

The Khmer Rouge problem is the only existing one on the Asian diplomatic scene between Paris on the one hand, and ASEAN, China, and Japan on the other. Both parties want the departure of the Vietnamese troops, according to the latest official pronouncement by François Mitterrand during his Beijing banquet and later confirmed by Claude Cheysson in his interview with *Libération* on 22 February 1984. In spite of this convergence in their objectives, the means however differ considerably. Nancy Chng, in an article in the *Straits Times* (Singapore), wondered,[35] "So why should the French feel more moralistic than any one else? What future does France see in Cambodia? The French are anxious not to lose contact with their former colony. It could be that vestiges of a cultural sentimentality remain. The French claim their approach to Vietnam and indeed to the whole Indochina region is one of taking a long-term perspective. They should take care to ensure that their foreign policy towards this region is one of genuine effort for long-term benefits rather than being blinded by myopia caused by self-interest." It is clear that the socialists still hesitate to play the "Sihanouk-DK card" completely for fear of losing Hanoi; it is also becoming clear that this "balancing act" is nourishing suspicions in Beijing and in certain ASEAN capitals, whose relations with Paris seem to be hinged on the French government's relations with Hanoi. Claude Cheysson claimed on the other hand[36] that ASEAN's relations with Paris are "first and foremost commercial and economic [and] they are channelled necessarily through Europe. . . . The dialogue engaged between the two [ASEAN and the EEC] is perfectly interesting. The ASEAN-EEC Agreement [of March 1980] is the only one in the world to have received a political dimension." If it has received a political dimension, is it not logical to wonder if Paris' relations with ASEAN will be limited in the future to commerce and economic development only? With the Cambodian problem still hanging in the air, can the relations between France and ASEAN be fully fruitful?

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NOTES AND REFERENCES

1. Official talks between Hanoi and Washington started in Paris on 13 May 1968 and continued until the signing of the Paris Agreement on 27 January 1973.
2. The socialists were previously linked to the communists by a Common Programme Government from June 1972 to September 1977.
3. Official diplomatic relations were already established with Hanoi on 12 April 1973, two months after the Paris Conference on Indochina.
4. The "Common Declaration on Political Questions" was signed in Kuala Lumpur on 7 March 1980.
5. Propositions 9 and 109 respectively.
6. *L'Unite* (weekly of the Socialist Party) no. 411, 6 February 1981, p. 5.
7. *Le Monde*, 7 May 1982.
8. *Libération*, 22 February 1984.
9. *Le Pacifique' Nouveau Centre du Monde*, Berger-Levrault collection "Stratégies" (Paris: Institut du Pacifique, 1983).
10. Paragraph 8 on French development aid to Hanoi; Paragraph 9 on the status of the DK coalition; Paragraph 12 on the Vietnamese attack on the Nong Chan refugee camp.
11. Bernama Press, 28 March 1983.
12. *Le Monde*, Editorial, 5 April 1983.
13. Ibid., Editorial, 4 May 1983.
14. Ibid., 29 April 1983.
15. Ibid.
16. The interview took place in Beijing on 2 May 1983.
17. The length of Mitterrand's speech was exceptional, compared with Zhao's 12-minute speech.
18. *Le Monde*, 5 May 1983.
19. Ibid., Editorial, 4 May 1983.
20. Ibid., 5 April 1983.
21. Ibid.
22. The first "Programme Commun" of 24 June 1972 mentioned in Part IV: "The Government would hope to stop the war in Vietnam and in Indochina; it calls for the retreat of the American troops. . . . It will recognise the Democratic Republic of Vietnam . . . and the Royal Government of National Union of Cambodia."
23. Vietnam was the "romantic pivot" of all revolutionaries during the late 1960s, following Che Guevara's famous slogan, "Down with imperialism. Create One, Two or Three Vietnams. Long live the Revolution!"
24. François Mitterrand, "Presence Française et Abandon", (1957), pp. 174–77.
25. François Mitterrand "Ma Part de Verité", (1969), pp. 27–36.
26. P. Joxe is the President of the Socialist Parliamentary Group and C. Estier is the President of the powerful National Assembly's Foreign Affairs Commission.
27. Minister for Defence and Minister for the Interior, respectively.
28. The Parti Socialist Unifié (PSU) is today still more to the Left than the Parti Socialiste.
29. CERES is the Centre d'Etudes et de Recherche d'Education Socialiste.
30. *Libération*, 22 February 1984. C. Cheysson regretted that the EEC cancelled its aid (food) programme and hoped that the French section of the Hanoi Language Institute would once again be staffed by French professors.
31. *The Nation*, 20 January 1982.
32. *Libération*, 22 February 1984.
33. References by the French press, for example, *Le Point, Le Monde, Le Figaro*.
34. Lacouture was a journalist for *Le Nouvel Observateur*.
35. *Straits Times* (Singapore), 6 April 1983.
36. *Libération*, 22 February 1984.

Eric Teo has recently obtained a Ph.D. at the Fondation Nationale des Sciences Politiques in Paris with a thesis on "French Public Opinion During the Last Stages of the Vietnam War, 1972–75".

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Some Development Problems in Bali

W. DONALD McTAGGART

In discussions on development in Indonesia the concept of "centre-periphery" has not been extensively used. It has been much commoner to utilize the dichotomy of "inner" and "outer" Indonesia. "Inner" Indonesia refers to Java, Madura, and Bali, the three islands characterized by extremely high population densities. "Outer" Indonesia comprises the remaining islands of the archipelago. During the colonial period the question of population numbers and density was significant. In "outer" Indonesia the lower population densities implied an availability of land for plantation and other similar forms of development, analogous to those being pursued in nearby Malaya. High population densities in "inner" Indonesia necessitated very particular forms of colonial economic development (for example, the sugar estates of east and central Java) in order to avoid insuperable problems of population displacement. Yet these same high densities enabled a greater degree of industrial development to take place, especially that designed to serve some of the basic needs of the Indonesian population. The "inner-outer" dichotomy consequently came to reflect not just population density differences; it reflected also the difference between a relatively more industrialized and urbanized Java containing little large-scale commercial agriculture or mining, and a less urbanized outer region which, from certain specific areas, produced the greater part of the country's export income.

The colonial economy was not an urban-based one. Exports consisted of crops produced by smallholders and plantations, or products from mining or forestry. A number of cities and towns existed in Indonesia during the colonial period, but they were not viewed by the government as primary development centres. There was an obvious need to build administrative centres, ports, transport nodes, and other central places which functioned within the structure of the colonial economy. Experience taught the colonial administration that the towns themselves were something of a problem. Politically they were fractious, pitting their Dutch inhabitants against a reluctant colonial government. Commercially they were the main centres for the retailing and wholesaling by the Chinese, a group regarded with deep suspicion and generally prevented from conducting business in the rural areas. For the poorer Indonesians towns were an unhealthy attraction, drawing migrants in considerable numbers to live in slum-like environments which were widely believed to constitute a hazard to their European neighbours.

Post-colonial development, especially that of the last decade, has invested Indonesia's urban centres with a much expanded role. Although Indonesia remains

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an important producer of raw materials, development in the contemporary period entails industrialization (both for domestic and export markets), finance and banking, real estate, and other activities characteristic of a modern economy. Urban centres do not now function merely as service centres for producing mechanisms located in the hinterlands; they are themselves economically dynamic nodes.

The "inner" and "outer" dichotomy is therefore no longer an adequate basis for analysis. As urban nodes become more important, reflecting their close relationships with centres of economic power on the international scene, they begin to outdistance their hinterlands, and become more like growth poles. The idea of "inner" and "outer" is replaced by the notion of "centre" and "periphery", with dynamism and control inherent in the former, retardation in the latter.

According to certain criteria Bali formed part of "inner" Indonesia during the colonial period. Like nearby Java, the island was densely populated, and exhibited a highly developed social and cultural life, based on small-scale agricultural enterprises cultivating wet-rice. Although commercial development was never stressed by the Dutch, they did encourage some cultivation of cash crops such as coffee and oranges. They did much to encourage the continuation of some of Bali's traditional exports, such as cattle, while suppressing others such as the trade in slaves. There was, however, little room for urban and industrial development within this somewhat paternalistic policy. Bali was not a major contributor to the wealth of the Dutch East Indies in an economic sense, although there was clear recognition of the richness of its cultural, artistic, and religious life.

In the post-colonial period Bali has found itself placed initially in a position of some disadvantage. In terms of its economic standing among the provinces of contemporary Indonesia it appears to fall, like Madura, between two stools. It never had the export-orientation characteristic of some of the productive regions of "outer" Indonesia, nor did it have the urban infrastructure which grew up in Java. Expressed in "centre-periphery" terms, Bali's problem could be described as that of being located in the centre, but in the "periphery of the centre".

This fact conditions the economic environment in which Bali's future has to be planned. The extremely high population density sets clear limits on what can be done to generate higher production levels in agriculture. There is already high underemployment in rural Bali, and few obvious avenues to escape it. But Bali is also remote from the economic centres of power in Indonesia, and consequently cannot be expected to participate immediately in the development of the new industrial infrastructure. Tourism alone appears to offer the opportunity to develop an industry with substantial impact on regional income.

The problem this paper seeks to investigate is what forms of economic development appear to be available for regions such as Bali. The island has a highly developed socio-economic system but not an economy which can, in any realistic way, be described as "traditional". It has already been too much influenced by the forces of the world economy. But although it has participated in this wider world economic system, it has few avenues of commodity production and consequently little chance of deriving a large regional income from trade and exchange. Bali will

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have to define for itself a regional economy with some degree of independence from national and international circuits. It cannot count on development such as that presently taking place in the more urbanized areas of Java. Nor can it generate income through export of raw materials. It may be necessary to distinguish between two distinct sectors of the Balinese economy — one intended to be meshed with the wider economy, and the other designed to promote a continuing high level of local autonomy. It is, in other words, a strategy to develop a dual economy.

Regional Geographic Background

Bali lies at the eastern end of Java, and is separated from it by a narrow strait. The island has an area of 5,600 sq km, and it consists of a range of volcanic mountains — a continuation of Java's — flanked by lowland to the north and the south. On the north coast the lowland is narrow and discontinuous. To the south, the area of lowland extends southwards in the shape of a triangle, to reach the small limestone outlier that constitutes the extreme south of the island. Similar limestones also occur in the island of Nusa Penida, lying to the southeast from the main island. Volcanic activity has not occurred in historic times in the western part of Bali. In the central and eastern parts of the mountain range, however, vulcanism is a contemporary phenomenon. The last major eruptive episode took place in 1963, when Gunung Agung and Gunung Batur both were active.

The climate is tropical, with a fairly marked seasonality of rainfall. Mean monthly temperatures oscillate from minima around 24 degrees to maxima around 31 degrees. Cooler temperatures prevail in the mountains. Rainfall is about 1500 mm on the south coast, rising to 3000 mm in parts of the mountains, and dropping to just over 1000 mm in portions of the northern coastal lowlands.

The population of Bali in 1981, according to figures derived from the population registration system, numbered 2,487,366. These are contained in some 564 *desa* or administrative villages, the great majority of which are rural. It has been estimated that about 9 per cent of the population of Bali should be considered to be urban (McTaggart 1982, p. 16). Forty-seven per cent of the population is shown as residing in the three *kabupaten* which make up the southern lowlands of Bali — Tabanan, Badung, and Gianyar. Although these districts contain several of the more significant towns in Bali, they are also areas of high rural population densities. Overall, the population density for the island was 442 per sq km.

Although statistics relating to regional and national income are not always wholly satisfactory, they do provide some indication of macro-economic conditions in Bali. At constant prices, gross regional product in Bali rose from Rp. 153 billion in 1975 to 304 billion in 1981, or to 573 billion at current prices (Kantor Statistik Propinsi Bali 1982*a*, pp. 49–50). Figures for per capita income were Rp. 88,000 in 1979 on the basis of constant 1975 prices, and Rp. 147,000 on the basis of current prices, placing Bali respectively 16th and 18th on the list of 26 provinces. In 1980 the current-price per capita income in Bali was Rp. 198,000

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whereas that for Indonesia as a whole was Rp. 299,000. Clearly Bali lags substantially behind other parts of the nation in terms of its per capita income.

Regional income, which is lower in Bali than in Indonesia as a whole, is also rather differently structured. This is evident from Table 1, which compares Balinese regional income by sectors with the national figures. In Bali the share held by agriculture was substantially higher than the national percentage — 45 per cent as opposed to 26 per cent. Bali has no mining, no petroleum extraction, and relatively small amounts of industry; consequently its percentage in that category was substantially lower than the national figure. Tourism is included along with commerce; but even in this sector Bali's proportion is lower than the national one, despite the importance of tourism to Bali.

Regional income figures seem to indicate that Bali is economically disadvantaged, and a closer look at some of the major components of its economy will tend to confirm this. Such a closer look will also disclose some of the reasons for this, and demonstrate the limitations that Bali faces in seeking to promote development.

TABLE 1
SECTORAL BREAKDOWN OF BALI'S REGIONAL INCOME COMPARED WITH INDONESIA'S NATIONAL INCOME

Sector	*Category*	*Bali* %	*Indonesia* %
Agriculture		44.92	25.71
	Food crops	31.60	14.54
	Plantation	3.08	3.06
	Livestock	8.73	1.54
	Forestry	0.02	2.48
	Fisheries	1.49	1.83
Mining/industry		13.28	41.74
	Mining	0.66	26.67
	Industry	4.59	8.79
	Utilities	0.44	0.51
	Construction	7.59	5.77
Commerce/transport		41.82	32.95
	Commerce/hotels	12.72	14.09
	Transport	9.06	3.90
	Finance	1.42	2.39
	Rentals	0.84	2.71
	Government/defense	7.93	7.18
	Services	9.85	2.28

SOURCE: Kantor Statistik Propinsi Bali (1982*a*), tables 1.6.2.1. to 1.6.2.3.

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Sectoral Review of the Balinese Economy

Agriculture. Traditional Balinese agricultural society was based on "sawah" rice cultivation, and there has been a historic preference in Bali for this crop. However, in view of rainfall deficiencies rice cultivation is concentrated in a number of distinct regions. The main one is to be found in the southern plains and lowlands, with smaller areas occurring in the west, around Negara in Jembrana, and in the east, around Karangasem. A fourth area is found on the north coast around the town of Singaraja, and extending westwards along the narrow coastal plain.

There are substantial areas of land devoted to coconut cultivation, coffee plantation, oranges, and spice gardens, especially cloves. The fruit trees are perennial, although they are generally intermingled with annual vegetable cultivation. This is a predominant form of land use in the western and northern parts of the island (areas of somewhat lower overall population density) wherever water conditions do not permit rice cultivation. Cultivation of economic trees and shrubs has spread rapidly in recent decades as population pressure has driven people to seek to make a living in these more remote areas. Vegetables and other dry land crops occur chiefly in a zone adjacent to and immediately to the north of the lowlands of Tabanan, Badung, and Gianyar. It also extends out into the eastern part of the island, and it reappears in certain areas along the northern coast. It is the characteristic land use of the Bukit peninsula in the south of the island, and in the island of Penida.

Most of the remaining land in the island is included within forest reserves, which account for about one fifth of the surface area of Bali (McTaggart 1984). Some of the forest is of high quality, such as that which covers most of the western parts of the central mountain range. Other parts, however, are almost completely barren, especially where the destructive effects of the 1963 eruptions were most keenly felt.

Production of food crops in Bali over the past decade represents a decisive success story, at least as far as production amounts are concerned. This is evident from the figures in Table 2. The increases in production of major and basic foodstuffs in Bali have been substantial over the last decade, and have led to a situation in which Bali is a food surplus zone, exporting significant quantities of basic foodstuffs to other parts of Indonesia.

Significant increases in production of certain plantation-type crops have also occurred. Production of oranges in 1978 amounted to 44,227 tonnes, and by 1981 had increased by almost 80 per cent to reach 79,475 tonnes. Clove production went from insignificant levels in 1976 to 355 tonnes in 1981 — a substantial amount when it is considered that cloves represent a high-value crop. Output of a number of others remained more or less stable; Virginia tobacco, a dry season crop on the sawah lands in the northern district of Buleleng, oscillated between 800 and 1,100 tonnes per year. Some, however, declined. Coconut output fell from 80,700 tonnes in 1976 to 69,000 in 1981, and the decline seemed to be persistent. Coffee production likewise showed a downward trend — 5,245 tonnes in 1976, 6,142 in

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TABLE 2
FOOD PRODUCTION, 1971 AND 1981

Crop	*1971*	*1981*	*Per Cent Change*	*Explanation*
Rice (padi)	484,624	876,054	80.77	tonnes
Corn	60,817	111,939	84.06	do
Cassava	221,624	342,738	54.65	do
(*Ubi jalar*)	230,072	154,823	-32.71	do
Peanuts	6,526	12,474	91.14	do

SOURCE: Kantor Statistik Propinsi Bali (1982*b*), tables V. 1.4–6.

1977, but 5,321 in 1980 and 4,813 in 1981. Coffee production has been affected by the growth in output of cloves, since many growers have decided to convert to what seemed to be the more lucrative crop.

These substantial increases in production have been achieved by various forms of intensification, rather than by a fundamental restructuring of the agricultural industries concerned. The characteristics of Balinese agriculture have therefore persisted, and some of them may be noted at this point.

As well as being small in scale, Balinese agriculture has traditionally been non-commercialized. This was especially true of the major rice-cultivation zones in the island, where each household unit was capable of producing the basic range of foodstuffs necessary for its survival, as well as for its participation in religious ceremony. The Balinese village was a collective corporate entity centred upon rice production. Subsistence, and not commodity production was the regular pattern. There were few specialists or "professionals" whose livelihood was entirely divorced from working of the land. Ownership rights, or at the very least usufructory rights to irrigated sawah conferred upon the male head of the household the right to participate in meetings of the *subak*, or irrigation society, a body without whose co-operation life would have been impossible for the individual farmer.

Although the subsistence element in production was dominant, there were components of trade and commercialism. Well before the early decades of the nineteenth century — the period when Dutch interest was aroused in the question of control and governance in Bali — the island was known as an exporter of agricultural produce. Rice and cattle made up a considerable portion of this trade. As commercial products began to be cultivated and traded in various parts of the archipelago they found their way into Bali, and were added to the existing range of products; coffee, spices, fruit, along with a variety of industrial raw materials (kapok, for example) began to be exported. The quantities were modest, however, and most of the trade was handled through foreign traders at Singaraja or at Kuta. The Balinese themselves participated in commerce only as primary producers.

With the establishment of Dutch rule — in the 1850s in the northern por-

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tions of the island, the early 1900s in the southern portion — conditions for trade were enhanced. The more or less feudal arrangements which had prevailed within Balinese society were dismantled. The Balinese were left in control of their land, no longer obligated with onerous duties towards their social superiors. Settlement of new land — forest clearance, and the establishment of cultivation systems — was no longer tightly controlled by the rulers. It was therefore possible for the Balinese to move out from their more traditional settlement areas, into terrain where new forms of agricultural enterprise were possible. Such areas were not, it is true, wholly devoid of settlement. Parts of the upland areas in Bali had been occupied by various groups for a long period of time. Indeed it was traditional in Bali to look to the mountains as the source area from which all of Balinese society was derived; in the uplands were to be found the majority of the "Bali Aga" villages, the supposed indigenous early inhabitants of the island.

Dutch policies had a considerable influence on the way in which commercial elements began to appear in Balinese agriculture. Unlike Java, Bali was not opened up to Dutch investment in the form of estates. Instead, attempts were made to build on already incipient forms of peasant commercialization in order to promote agricultural exports. Coffee plantation was encouraged. High altitude vegetable farming was also promoted, especially in the elevated zone of the Bratan Caldera, where temperature conditions were cool enough to permit cultivation of a wide range of temperate vegetables. Opening up of inter-island communications made it possible for Bali to dispose of some of its produce in other parts of Indonesia, especially Java. Improved communications also made possible the direct export of some of its produce to foreign destinations.

Three distinct components in Balinese agriculture are therefore discernible at the present time, owing their origins to developments during the colonial period. On the one hand there is the mixed sawah and other miscellaneous crop cultivation, the traditional form of Balinese agriculture. Commercialization in this component entails either the production of a surplus of rice for sale, or the production of subsidiary commodities, such as fruit from the household compound, coconuts, or the growing of alternative crops such as soya beans or tobacco during the season when rice is not planted in the sawah. The second component is that of cash cropping in areas where rice is not feasible, the bulk of the produce being intended for the local market. Such areas include the vegetable-growing areas of the uplands, and much of the dry farming country on the upper slopes of the volcanic calderas, where crops such as corn, soya beans, and peanuts may be cultivated. The third component is that of commercial production for a market which may include Bali, but which is intended to be at least national, if not international. This component, like the second, occupies mainly those parts of Bali which are not suited to rice cultivation, because of lack of water or for other reasons. It includes considerable portions of the upland areas of the island, and also includes significant portions of the drier northern coastal plains.

Government policy for development in the contemporary period reflects a number of aims common to all three of the components designated above. In par-

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ticular, it is not intended that there should be a massive movement of population from rural to urban areas to relieve pressures of village poverty or over-population. There is no ban on migration, and indeed a certain amount of transmigration to other parts of Indonesia has been encouraged (though not with any great degree of success). But the basis for policy appears to be an endeavour to provide in the rural areas a standard of living adequate to provide for all of the existing population.

As far as the first component is concerned, development has taken several forms. The most important are those related to improvements in water management techniques for irrigation, and the introduction of high yielding rice varieties along with associated services in the provision of fertilizers and pesticides.

Despite the seemingly tropical nature of Bali, rainfall is actually deficient, and irrigation is required even for main season crops in most parts of the island. Table 3 shows estimates for water required for irrigation purposes in two different parts of Bali, based on the findings of consultants' reports (*Development of Water Resources of Bali*, vol. F, page 9).

These estimates make some allowance for losses in conveyance, but reflect at least "normal" conditions of rainfall, conditions which are by no means always met. The traditional means to deal with the problem of water deficiency has been to construct a dam or a weir on a river, and divert the flow such that it may be used downstream (often much further downstream, due to the tendency of Balinese rivers to be deeply entrenched). Such dams, constructed usually of timber or brushwood, were the responsibility of the *subak*. In 1976 an inventory of *subak* was carried out throughout Bali (*Development of the Water Resources of Bali*, vol. D, appendix). This inventory revealed that, leaving aside some hundreds of individual weirs and diversions which were too small to be of great significance, there were 1,016 temporary weirs, and 239 permanent dams on the rivers of Bali. The temporary weirs represent the work of individual subak groups, weirs which have to be repaired or reconstructed frequently in order to ensure adequate performance. The permanent dams represent the work of the provincial administration, intent on replacing as many of the temporary weirs as is practicable with structures which will be more reliable, and which will be more efficient in terms of storage and delivery of water. It is noteworthy that in three *kabupaten* the weirs greatly outnumbered the permanent dams — Buleleng (234 to 28), Tabanan (429 to 22), and Karangasem (245 to 20).

TABLE 3
IRRIGATION REQUIREMENTS FOR RICE

Location	*Depth of water required (mm)*			*Peak demand l/s/hectare*
	Wet season crop	*Dry season crop*	*Total for two crops*	
North Bali	1,488	2,092	3,580	2.12
Southwest Bali	1,372	1,628	3,000	1.70

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Essentially the investments made in rice agriculture over the past few years have consisted of various forms of intensification, for which government action has been the enabling factor. The INMAS and BIMAS schemes for the improvement of rice yields have involved setting up networks for the dissemination of seeds for improved strains of rice, and the provision of fertilizers and pesticides required in order to realize the possible improved yields. Virtually all the sawah land in Bali is now comprised within one kind of intensification scheme or another. The Bali Irrigation Project has constructed dams which have enhanced the potential of many of the rice cultivation areas. There has been little for the individual producers to invest in, in order to improve their own particular operations. Observations seem to suggest that as more disposable income accrues to agricultural households, the most immediate uses seem to be medical care and education for the children, rather than ploughing it back in new farm investments (Sean Foley, personal communication).

Closely associated with sawah agriculture is inland fishery. Sawah land is frequently directly usable, or relatively easily modified, for the purpose of raising freshwater fish, and since the protein yield per unit of land is extremely high under this form of utilization, the provincial administration has strongly encouraged this activity. In 1981 total reported production from inland fisheries amounted to 942 tonnes — perhaps small when compared with the catch from the sea fishing (24,700 tonnes) — but nonetheless considerable. About half the catch from inland fisheries came from rivers and lakes, Danau Batur being an important source. The remainder came from fish-ponds and sawah.

A greater degree of individualism is observable in some of the other more cash-oriented sectors of the agricultural economy. In the earlier years of the century, coffee was possibly the main cash crop grown for sale both domestically and outside of Bali. By 1981 there were 42,000 households reported to be coffee cultivators, largely to be found on the hillslopes in the *kabupaten* of Buleleng, Gianyar, Tabanan, and Bangli. They cultivated a total of 32,800 hectares, producing 4,800 tonnes of coffee. In fact, production and area devoted to coffee have remained fairly constant over the past few years, despite the tendency to replace coffee with cloves (209 hectares changed from coffee to cloves in 1981). Here the direction of new investment is largely a choice by the individual grower. Clove plants are marketed by individual entrepreneurs in practically all the centres in the major regions of clove cultivation. The choice is one based on estimated profitability. The area under cloves rose from 4,278 hectares in 1976 to 12,669 in 1981, with production rising from 18 to 355 tonnes, and the number of households so engaged from 25,445 to 40,315. Government initiative has played a larger role in encouraging the expansion of citrus cultivation. One of the recommendations which emerged from the ground water study conducted for the government of Bali in the mid-1970s was that better use could be made of the groundwater resources of the north coast water-holding soils, and that one way to utilize the water available would be to cultivate oranges. Of the total production of oranges in 1981 (79,500 tonnes), 66,000 came from Buleleng. In general, land not previously used, or land

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previously used for other dryland crops has been devoted to oranges (often interplanted with corn); but in a number of instances, as for example around Jagaraga, sawah has been converted to orange grove.

Coffee, cloves, and oranges all require marketing skills. Although as far as coffee is concerned there has been some attempt to create and maintain coffee producer co-operatives, much of the marketing is now in private hands. This is also true of marketing for the other major cash crops. Wholesale and collection agencies exist in all of the principal towns of the island. But much of the crop is now being trucked to Java, especially to Surabaya, the largest city in eastern Indonesia. A critical element in the expansion of these forms of agricultural trade has been the improvement in communications. The main road between Denpasar, Tabanan, and Gilimanuk in the west has been largely rebuilt, and larger ferries have been put in service between Java and Bali. Both truck and bus traffic across the straits has risen sharply over the past five years. Interisland shipments of various commodities in 1981 were estimated to be: 116 tonnes of cloves (one third of total output; but cloves have a two-way trade, 87 tonnes having been imported from other parts of Indonesia); 2,200 tonnes of coffee (or some 46 per cent of total annual production). In addition, 10,500 tonnes of copra and 16,000 tonnes of coconut oil were shipped on interisland trade.

Livestock constitute another important component in the livelihood of rural Balinese. Most households in the rural areas own some livestock, which is sometimes slaughtered for home use, and sometimes marketed for sale in Bali, in Java, or even overseas. Pigs are the most numerous (and probably the most ubiquitous) of the larger animals. They numbered 790,000 in 1981, and some are undoubtedly owned by virtually every rural family in the island. Water buffaloes are much less common, numbering only 7,050. These are used in conjunction with cultivation — for ploughing and transport — and are found mainly in the districts with lower cultivation densities, principally Buleleng and Jembrana. Cattle are both more numerous (390,000 in 1981) and more widely owned. In 1981, 34,400 cattle and 358,000 pigs were reported to have been slaughtered. There is little export trade in pigs (which are thus mainly for local consumption), but some cattle and cattle skins are still exported.

To summarize, agriculture in Bali is conducted on small mixed farms. Where water is available for irrigation, rice is a preferred crop, and there will usually be a *subak* organization to manage the distribution of water to the sawah, as well as to take care of the upkeep of the irrigation system. Rice farms also comprise other elements. Fruit, vegetables, coconuts, and some livestock products are normal. These products are used to sustain the farm family, but if there is a surplus it is sold. Until recently there was not a large rice surplus in Bali, but with the advent of new rice strains more is produced than is essential for the Balinese themselves. Farmers, therefore, now tend to have an income from rice, and sometimes quite a substantial income. Farmers living in areas which cannot grow rice have long been more involved with production for the market. They have to purchase rice, and as a result they have had to sell their own crops. Vegetable farmers in the uplands,

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orange growers in the dry northern plains, coffee and clove cultivators in the hill country — all of these are agriculturalists accustomed to commodity production. The direction of government policy has been towards intensification. Efforts have been made to raise per unit area productivity with a view to enhancing the income of the farmers. But at the same time, the government has been careful to avoid measures which would fundamentally transform the rural scene. There has been no effort to increase average property size, for example, or even to introduce mechanization on any grand scale.

Some changes have been made in the domain of sea fishing, even though in the event their effects have not been very great. In general the Balinese do not care to go to sea. The sea is a place of demons and evil spirits, unsafe for normal humans. However, there are a number of specialized communities dealing with marine products. These tend to lead a separate, even isolated existence. For the most part their populations do not own or have access to farm land. Their whole existence, therefore, relates to the sea and its products. Among the products of the sea we may mention sea salt, which is extracted by evaporation in a number of villages along the coast; but sea fish constitute the major product. Landings amounted to 24,700 tonnes in 1981. The main area for sea fishing is the south coast of the island; the three *kabupaten* of Jembrana, Badung, and Klungkung accounted for 88 per cent of the catch. Some 3,000 boats take part in sea fishing around the coasts of Bali, all of them small. Financial encouragement has been offered to the owners to upgrade them by fitting motors. Approximately one-third of the boats are now so equipped. The catch is mainly consumed in Bali, although there are substantial exports of tuna (landed at Benoa from foreign fishing boats and processed there for re-export), amounting to 2,800 tonnes in 1981.

Forestry. The role of forestry as a producing component of the economy is relatively small. Only small quantities of timber are harvested, quite incidentally to the main forestry operations, which are primarily directed towards conservation. Modest amounts of charcoal, bamboo, turpentine, and oil from Melaleuca leucadendron are produced. In addition, many local households depend on forest products for their cooking fuel, which they simply harvest themselves, albeit illegally. Some harvesting of specialized woods takes place for the provision of carving material for the island's sculptors. Replanting of suitable species for carving is also carrried out.

Some 20 per cent of the island's surface (125,000 hectares) has been included in 19 designated forest reserves. The bulk of these reserves are in the western part of the island, or on the lower slopes of Gunung Agung in the east. However, there are several reserves in and around the central calderas, in areas where there are sometimes sharply conflicting demands for land. Upland farming has by now replaced virtually all the forest on the southern flanks of the calderas, and within the calderas themselves further extensive tracts are devoted to vegetable growing. There is general agreement that it is vital to retain adequate forestry reserves for purposes of soil conservation and watershed management. It is

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extremely difficult to remove people from land presently used for agriculture in order to extend existing forestry reserves, but attempts are being made to expand the effective area of forest beyond that included in the official reserves. This is done by encouraging villagers to permit tree-planting to take place on their land wherever circumstances demand it. As a result small patches of tree-planting are appearing, especially in areas such as the flanks of ravines, where there is a grave danger of soil erosion or collapse.

Increasingly, forest areas are coming to play a role in the tourist industry. Recent policy changes (see McTaggart 1984) have allowed for the designation of parts of the forest reserves as "recreational". Several portions of the forest reserves in the central calderas have been given this designation, and it is indeed possible that such zones will play a role in expanding the "high altitude" recreational facilities of Bali.

Forestry, however, on account of its importance in conserving soil, and in protecting watersheds, has a value to Bali far in excess of any supposed share in gross regional income — its 0.02 per cent as opposed to a national figure of 2.48 per cent. Consequently, there is great significance in all forms of conservation, whether in forest reserves or not, and in any developments which may have an impact on conservation. Agricultural changes are contributing to a substantial reduction of the effective forest cover outside the forest reserves at the present time, and this is cause for deep concern. The shift in cultivation from coffee, with its shade trees of Erythrina, to cloves, which are grown in full sun, has led to cutting and clearing of many of the Erythrina trees. The new environment is a much less effective surrogate for forest than was the coffee with its shade trees, and erosion rates are enhanced. The amount of land in Bali under firm forest protection, although it may seem high by some standards, is not really adequate to ensure good watershed protection.

Industrial Development. As was implied in the figures on regional income, Bali's industry remains somewhat rudimentary. But nonetheless it would be incorrect to conclude that there is no industrial base, or that the potential for further development is not considerable.

Industry may be considered to be household, or artisanal; small-scale; or large-scale. Table 4 shows the number of industrial establishments and the numbers employed in industry in 1981.

Badung and Gianyar were the two most important *kabupaten* as far as industrial employment was concerned. Badung had 10,445 persons engaged in industry, or 40 per cent of all industrial workers; Gianyar reported 7,526, or somewhat over 28 per cent. Buleleng in the north reported 5,398, or almost 21 per cent.

Food-related, textile, and wood-working industries accounted for much the largest components of employment. In the total industry figures, food-related industries accounted for 37 per cent of the workers, textiles for 21 per cent, and wood-working industries for 22 per cent. Food-related industries include drinks manufacture, sauces, ice manufacture, rice-milling, coffee-roasting, vegetable oil

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TABLE 4
INDUSTRIAL ESTABLISHMENTS IN BALI, 1981

Industry type	*Number of establishments*	*Number of workers*
Household	1,370	3,879
Small industry	861	7,836
Large industry	268	14,576
Total	2,510	26,291

pressing, to mention only a few. The textiles component includes a large (province-owned) spinning mill in Denpasar, and a considerable number of smaller establishments in Gianyar engaged in clothing manufacture directed towards the tourist market. Traditional textile production continues in a number of centres including Gianyar, Denpasar, and Singaraja. Wood-working industries include furniture-making (often a village industry), and various carving enterprises, some of which have attained considerable importance.

It is clear that industry has primarily a local orientation. Those industries serving the tourist market have a certain export component, but they are not organized as export industries, since their clientele comes to Bali in search of purchases. Bali does not seem to be favoured as a location for national industries in Indonesia, due perhaps to unfavourable communications.

Tourism. The tourist industry is one on which many have pinned hopes for the development of Bali. Since the late 1960s a substantial amount of planning and development has been devoted to tourism. There has also been much speculation as to exactly what is the impact of tourism on Bali and on its people.

The scale of tourist development has been somewhat of a disappointment to its most vociferous promoters. During the 1970s predictions were made that Bali might expect to handle over 500,000 international tourists by the mid-1980s. Recent statistics, although they undoubtedly greatly underestimate the numbers of tourists visiting Bali, do not suggest that such a target is likely to be met in the near future.

The Immigration Service reported that in 1981 visitor arrivals numbered 158,900, up from the 147,400 of 1980, but higher than the 152,300 reported for the following year, 1982. These arrivals, however, comprise only those who arrived in Bali directly from overseas — that is, passengers clearing immigration in the island. That they cannot be realistic is revealed by the fact that immigration records show 190,000 departures for 1981. There are many tourists, both domestic and international, included in the approximately 300,000 passengers a year who land at Denpasar airport from other Indonesian points of embarkation, or in the 750,000 travellers per year who cross by ferry from Java to enter at the port of Gilimanuk.

For similar reasons, the available figures relating to length of stay (an

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average length of stay of 3.11 days) are probably unrealistic. Among those tourists travelling overland from other places in Indonesia are likely to be many whose intention it is to remain in Bali for periods measured in weeks, and even in months.

There is little doubt that the industry does bring in substantial amounts of money. Surveys in the late 1970s indicated that even then average daily per capita expenditure for a short-term international tourist came to about US$35.00 per day.

What is less certain is that all, or even much, of this goes to the Balinese economy. The major hotels (Bali Beach with 600 rooms, The Bali Hyatt with 390, Pertamina Cottages with 160, and more recently the first of the major anticipated developments in the south at Nusa Dua) are all of non-Balinese ownership, and in most cases have a substantial component of foreign investment. Infrastructure, particularly that at Nusa Dua, was built with the assistance of a World Bank loan. Consequently a large portion of the tourist revenue is directly earmarked for loan repayments, or for transfer overseas. Many of the tourist services (travel agencies, and so forth) are provided by enterprises which are national in scale, and not provincial. In the "long-term" tourist sector, however, where visitors seek low-cost accommodation and meals, the impact on the Balinese is much stronger. Kuta and Legian remain the major centres for this kind of tourism, and each consists of a proliferation of "home-stay" accommodations, small hotels, and informal restaurants.

Tourism does have a pronounced impact on the handicrafts trade, and on textiles. Centres such as Kuta are major marketing foci for tourist sales, and the popularity of the items sold even attracts foreign dealers, especially from Australia which contributes the largest number of overseas visitors. Crafts and artisanal activities have been stimulated throughout an extensive region, especially to the northeast of Denpasar. Carving and jewellery are common items of manufacture and sale. Cultural performances, such as dances, are put on by local associations, and many of the performers in these are regularly employed to participate, and so should be considered to be professionals.

Outside the major areas of tourist impact (Sanur, Kuta, the craft areas, and Nusa Dua) the effects of tourism are much less pronounced. There is a scattering of smaller hotels in virtually every part of the island, and in addition, tourist buses make regular circuits following the more scenic routes and highways. But many of the villagers never see a tourist; nor do many of them benefit from the tourist dollars that the traffic generates.

Conclusions

Bali represents a problem commonly encountered in Indonesian development at the present time. It falls between two stools; on the one hand is Java, with its advantages of centrality and accessibility. Much of the new consumer-oriented industry of Indonesia is located in the major cities of Java. On the other, are the territories with important natural resources to exploit — forests, mines, oil-fields.

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Bali has the problems of Java — the high population density, the intensity of cultivation of the soil — but not the advantages.

Nevertheless, some development has been taking place in Bali. The island's economy is becoming progressively more market-oriented. This results in part from the fact that there have been real increases in production in Balinese agriculture, making it possible for rice farmers, even on their tiny farms, to earn a cash income. It results also from the steady increase in the tourist traffic, both international and domestic.

What is unclear is what this can lead to. There are no signs that major structural changes are taking place in Balinese agriculture. The village-corporate structure that has been central to rice agriculture for centuries persists, although it seems likely that it will experience stress and strain in containing some of the potential changes in store. Pressures already seem to exist to permit enterprising farmers more freedom of choice, less community constraint, than is the case under present circumstances. Tourism, the one major service industry in the island, adds to pressures for change. There is much debate in Bali as to how great an impact tourism has on Balinese society. Although estimates differ, the impact is undoubtedly large, and cannot easily be shrugged off.

Perhaps the most serious issue is that Bali has entered a phase in which a dual economy is developing. There are portions of its economy in which historic patterns are still entrenched, despite modifications. But there are also portions in which modern values and methods prevail. This latter sector has been heavily infiltrated by non-Balinese, nationals, and foreigners. Balinese have a tight grip on government and administration. But it is not at all certain that they control the dynamic sectors of the island's economy.

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Recent Political Developments in Thailand and Their Implications for the Future

KRAMOL TONGDHAMACHART

The composition of the present government in Thailand is the outcome of the 18 April 1983 general election which took place under the 1978 Constitution. The elections gave no clear-cut political mandate to any of the political parties competing for parliamentary seats. However, since the Constitution imposed an obligation on independent parliamentary members to join a political party before the expiry of the transitory clause on 22 April 1983, the two big political parties, that is, the Chart Thai and the Social Action, competed to win over independent parliamentary members and members of other parties to their fold. The result was that no party succeeded in obtaining a majority of seats in the 324-member House of Representatives which would have empowered it to form a government in its own right. The Chart Thai increased its membership from 73 to 109, the Social Action from 82 to 101, and the Democrat from 55 to 57, but the other smaller parties lost members to the three big parties. In this situation, the various parties, both large and small, had the option of joining up with other parties to form a coalition government. Initially, Prime Minister Prem Tinsulanond announced his intention not to accept the premiership as offered by the Social Action Party; the Chart Thai Party then took steps to form a coalition government. However, the Chart Thai was unsuccessful and found itself excluded from the coalition government that was subsequently formed after two small parties, Samak Sunthoravej's Prachakorn Thai and General Kriangsak Chamanan's National Democrat Party broke away to rally around General Prem who was also supported by the Social Action Party, the Democrat Party, and particularly the Armed Forces. Prem headed the new coalition government.

General Prem formed a four-party coalition government supported by 208 parliamentary members or two-thirds of the total membership of the House of Representatives. It was predicted by several critics that the coalition government would not last long mainly because two coalition partners, namely, the Democrat and the Prachakorn Thai were bitter enemies and hence unlikely to work well together in a coalition government.

As it appeared, however, the coalition government has now lasted for a year and, by most accounts, has worked effectively. It is very likely that it would last for at least another year, despite ongoing rumours of an imminent Cabinet reshuffle. This stability is due to four factors:

1. the personality of General Prem, which commands the respect of the four parties in the coalition,

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2. the Armed Forces under the leadership of General Arthit Kamlang-ek, which continue to support General Prem as head of the coalition government,
3. the public continuing to perceive General Prem as an honest person and hence support him as premier,
4. and the 1978 Constitution, which provides for a balance mechanism in which both the bureaucratic and non-bureaucratic political forces share political power. Although, following the expiry of the transitory clause, the bureaucratic force has lost the right to hold political positions concurrently with official positions, and the power to support Cabinet against the elected politicians, they not only continue to have a share of legislative power, but also enjoy to a considerable extent real power to either obstruct or put the elected politicians out of action. The elected politicians also realize that although technically, they have the power to vote the government out of power, they cannot succeed in automatically nominating their peers to form a government.

Such political developments imply that the present political stability of Thailand depends partly on the personality of General Prem and partly on the compromise between the bureaucratic and non-bureaucratic political forces. It also means that political parties in Thailand, if they want to form a government in their own right, must strive during the next three years to strengthen their organizational structure and expand their power bases in order to have the potential to become a majority party in the next general elections scheduled for 1987.

It must be pointed out, at this stage, that there are three trends which have developed in Thai politics and which are relevant to the study of Thailand's political future, at least for the next three years or so.

The first concerns the activities of the Communist Party of Thailand (CPT); the second, the role of the military authorities; and the third, the present coalition government.

When Prime Minister Prem came to power in 1980, he issued Prime Minister's Order 66 which has been, and still is used as the basis for the main thrust of government policies regarding insurgencies, including that led by the CPT. The Prime Minister's Order 66 provided amnesty to all revolutionary elements in Thailand. If any member of the separatist movement or the CPT were to surrender, they would be welcomed to return to society as participants in national development. Since then, massive surrenders of CPT members and sympathizers have ensued, reducing the numbers of CPT members and sympathizers from 11,000 down to 3,000 at the moment. The CPT elements now can only operate in small guerrilla units, of up to five persons in different parts of Thailand. They are not prepared to confront the army authorities in an armed clash. What they can do is merely seek information from the villages. They rarely take up arms and join in battle with the government as they used to do four or five years ago. Those CPT members or CPT elements who have taken the opportunity to come out of the jungle are allowed to live a normal life, participating in the political process of the country as provided for in the Constitution. They can even contest in elections. There have been fears expressed by some authorities that the communists have

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taken advantage of the government's offer in order to gain power both through the ballot box and through fomenting unrest in Bangkok so as to topple the government. The military authorities, however, have taken precautionary and preventive measures against this possibility. The military knows of the CPT elements who have not surrendered and are living in Bangkok. These are given a chance to give themselves up to the authorities, and then to lead normal lives. However, if they do not turn themselves in to the military, they will be arrested. The military authorities have earned much credit from Order 66 of the Prime Minister's Office because it was they themselves who did the planning and drafted the Order. The success of the military authorities in reducing the scale of the revolutionary war that was started in 1965 by the CPT was partly derived from the new policy, and partly because of the changing international situation. Since the outbreak of the Third Indochina War in 1979, the Communist Party of Indochina cut off all assistance to the CPT elements in Thailand. They also refused to provide sanctuary for the CPT elements in the Indochina territories. This prevented the CPT elements from taking sanctuary when they were under military pressure from the Thai authorities. The Chinese Communist Party also has not given support to the CPT as it used to in the past. The combination of the effective internal administrative policies and the new international situation enabled the Thai Government to deal successfully with the revolutionary war situation. With the internal situation stabilized, the military gained prestige, to the extent that they reckoned that they should continue to have a role in the political process of the country in order that they could have a say in maintaining the political stability of Thailand for which they felt they have sacrificed so much to achieve.

As a result of this first trend, another trend in Thai political development has since become evident. The expiry of the transitory clause of the Constitution of 1978 on 22 April 1983, meant that the military authorities would no longer be able to maintain political positions in the Cabinet concurrently with their military positions. When the end to the transitory clause of the Constitution was approaching, the military authorities took steps to propose a constitutional amendment which would have empowered government officials and military authorities to retain their political positions as they used to in the past four years, or more precisely, since the change of government in 1932, which was a move from absolute monarchy to a constitutional regime. The military had the support of some parliamentary members who agreed to propose such an amendment in Parliament. Parliament debated it, and adopted in principle the proposal that government and military officials should be permitted to maintain political positions in the Cabinet concurrently with their military or government positions. But at the third reading of the amendment bill, Parliament rejected it because of the increasing dissatisfaction with the military authorities. At that time, there were rumours that a coup was imminent, though eventually it did not take place. Prime Minister Prem took steps to diffuse the constitutional problem by dissolving Parliament and ordering that a general election be held on 18 April 1983, before the expiry of the transitory clause. The result of that election was that no party was given a clear-cut mandate to form

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a government in its own right. The political parties thus had the opportunity of joining with others to form a coalition government. Prime Minister Prem announced his intention to retire as Premier, leaving the door open for the heads of political parties to form a government. However, M R Kukrit Pramoj, the head of the Social Action Party, which had the largest number of seats, declined to form a government. Instead he called on Prime Minister Prem to head the new government which the Social Action Party would support. On the other hand, another large party, the Chart Thai Party, which came in second in the general election, tried to form a coalition government. The Chart Thai Party gathered in the smaller parties, including the Prachakorn Thai Party of Mr Samak Sunthoravej. It managed to expand to about 164 Members of Parliament. The Chart Thai leader, General Pramarn Adireksan, thought that he would be able to form a government. A test of strength took place on the day that the President of the House of Representatives was to be elected. The Chart Thai Party succeeded in having Uthai Pimchaichon, the leader of a small party, the Progressive Party which had three members in Parliament, who ran against the candidate of the Social Action Party, Boontheng Thongsawat, elected as Speaker of the House of Representatives. Chart Thai anticipated that as the Speaker, Uthai would be in a position to nominate General Pramarn to the premiership. However, according to the Constitution, it is the President of the Senate, not the Speaker of the House of Representatives, who was the President of the Parliament and who was empowered to nominate the premier, who in turn need not necessarily be an elected Member of Parliament. The President of the Senate consulted with different parties about the possible candidates to be nominated to the King for the position of Prime Minister. It appeared after two days of politicking that the Chart Thai Party lost the bid for premiership. The leader of the Prachakorn Thai Party, Samak Sunthoravej, switched sides to support the Social Action Party which, with the Democrat Party, supported General Prem to head a new government. Thus the Chart Thai Party found itself excluded from the new coalition government.

General Prem then formed the four-party coalition government on 7 May 1983, which many critics in Thailand predicted would not last longer than four months. It has lasted for more than a year now and is very likely to last for another year despite rumours in gossip circles and the newspapers of impending Cabinet reshuffles. In fact, it is likely that General Prem will serve his full term, until 1987.

There are four reasons, as enumerated earlier on, to support the argument that political stability will continue in Thailand for the next three years. First, the personality of General Prem is acceptable to all the party leaders. He commands the respect of the four coalition parties. He is demonstrably able to moderate conflicts within the Cabinet. The two parties which were known to be bitter enemies, the Democrat Party and the Prachakorn Thai Party, different in both philosophy and personalities, have found that they can work together in the coalition, despite having denounced each other vehemently during the general election campaign. They have supported each other's position in Cabinet. Besides, even the Chart Thai Party which is an opposition party has indicated that it was amenable to joining the

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government to form a grand coalition or a national front government patterned after the Malaysian experience.

The second reason for expecting that there will be political stability especially in the government is that the Armed Forces under the leadership of General Arthit Kamlang-ek support General Prem as head of the coalition government. General Arthit has announced on every occasion available his support for General Prem despite attempts to play him up as a challenger to Prime Minister Prem, who is said to be prepared to head the new government after General Prem steps down. Since the Armed Forces, the only institution that could topple the government, have declared their support for the government, and with the opposition parties also prepared to join the government, there is a strong indication that the political stability under General Prem's government will continue.

The third reason pointing to political stability is the fact that the public continues to perceive General Prem as a most honest premier, and they support him. Critics who complain of the economic problems facing the country and conclude that a change in the government is needed are faced with the counter argument that General Prem is an honest person and is trying to solve the economic problems to the best of his ability, and that he should be given time to work out the solutions.

General Prem may appear to many as a weak personality, put up to head the coalition government as the smallest common denominator among the power groups. However, he has a commanding personality arising from his honesty and from his willingness to compromise on unimportant issues, thus maintaining good working relationships in Cabinet. However, he does not compromise on very important issues of national interest. For example, the biggest party, the Social Action Party, in 1983 called for a rice price support policy in which the government would pump money into the countryside to buy rice from the farmers in order to boost the price of paddy. However, such a policy, practised for the past three years, has been a failure. The Prime Minister decided not to compromise and adopt the policy any longer. When his decision was made, all the parties in government accepted his decision. Even though General Prem is not a member of any political party, when he wants to command the Cabinet he can do so. It is thus not clear whether he can be simply considered a weak premier. He compromises when the issue is not of national importance, but if the issue is clear-cut he would not hesitate to make a decision and take responsibility for it.

The comparison that is often made to emphasize General Prem's low political profile is with Field Marshall Sarit's style of government. However, even if a strongman such as Field Marshall Sarit were to be around today, it is not likely that he would be able to dictate his decisions arbitrarily as he did in 1957 or 1960, because of the fragmentation of the Thai political structure that has developed since then. The emergence of the new middle class has made it impossible for a person to dictate or to impose his views. He would have to compromise, to give all parties concerned the sense that they have some share of political power and in decision-making. General Prem has actually introduced many innovations into the Thai political process. He initiated what is called the committee for co-ordinating

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activities of the public and private enterprises. He chairs that committee at its monthly meetings in which big businessmen and high-ranking government officials participate. This is an indication that he welcomes participation in decision-making, especially in economic matters and from businessmen themselves.

The fourth factor that points towards the continuation of political stability is the fact that the 1978 Constitution provides for a balance mechanism in which both the elected politicians and the military authorities share political power. Although following the expiry of the transitory clause, the military authorities have lost the right to hold political positions concurrently with their official positions, at present they not only continue to share legislative power but also enjoy considerable real power to either obstruct or put the elected politicians out of action. The reality of Thai politics is that a compromise must be made between the elected politicians and the military authorities. The bureaucratic polity seen in the past in which the military was dominant in political matters, while the non-Thai businessmen monopolized economic power and passed on benefits to the military leaders, for example, by giving chairmanship of banks to the generals, is now gone and will not be permitted to emerge again in Thailand. There has been a blurring of the distinction between the non-Thai and Thai, with many high-ranking officials having left their positions of prestige to join the business world. This can be regarded as a healthy development. Businessmen have gained confidence that they can get political power through the mechanism of political parties, but they still lack experience in running political parties. The political parties that they set up are just parliamentary parties, and it is very difficult to discipline elected politicians. The businessmen are aware of this, even though now the Constitution imposes an obligation on party members not to resign from the parties. If they resign or are expelled from the parties they lose their parliamentary membership. Therefore, the military authorities are actually a benefit to the parliamentary system. The military sits in the Senate, and the President of the Senate is empowered to nominate the Premier, providing a balance mechanism. Even though the businessmen possess economic and political power, they do not automatically have the complete say in selecting the Prime Minister. This feature of having a balance mechanism may be unique to the Thai Constitution, but the 1978 Constitution which provides for it, has lasted six years already — longer than the previous four. If the elected politicians do agree to maintain this compromise with the military on sharing political power for the next three years, they would have a chance to form a government in their own right in the next general elections scheduled to take place in 1987, without the support of the military authorities. However, if they are to do so successfully, they need to expand their organizational structure and popular base. As already mentioned, Thai political parties are not political parties in the usual sense of the term. Most of them, except the Democrat Party, are parliamentary parties, which limits their contact with the electorate to election campaigns when these arise. At other times, their main preoccupation is not in strengthening their popular base, but in politicking within Parliament. Such parties are not in the position to render effective support for the government which therefore continues to

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need the support of the military authorities. A constitutional mechanism that would continue to provide a framework within which political stability could be maintained by giving the two forces, viz., the military and the democratic-political, each a share of political power, is essential. Thus far, there has been a consensus among the elected politicians that the military in politics cannot be done away with at present, but rather, should be utilized for the benefit of Thailand, both in maintaining parliamentary and political stability as well as the usual duty of defending the country.

In summary, it should be noted that with regard to the military, certain factors point to stability being maintained: the quietening of the revolutionary war started in 1965 by the CPT, for which the military authorities claim credit; the fact that the military, unlike those of old days who used guns to seek political power, have become sophisticated and to use democratic mechanisms to seek political power; and the fact that the military know how to adjust themselves to new political situations, together with the balance mechanism written in the 1978 Constitution, which provides a flexible frame empowering both the military authorities and the elected politicians to share political power.

Coup making is not a thing of the past in Thai politics, but it is not a thing of the present either. The military authorities know that they have the power to stage a coup. The question which they have to consider is how to exercise power after they have gained it, and what the most appropriate system of government would be — a question that has cofronted the Thai élite since 1932. The democratic, semi-dictatorial, and dictatorial systems have all been tried; each revealed that it had serious shortcomings. The current Constitution, with its balance mechanism between the military and elected politicians, is the latest experiment towards this end, and it seems to be the most workable. It may not be to the satisfaction of everyone, but is at least acceptable to those groups which have some share of power.

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Manpower Planning and Development in Malaysia

SIEH MEI LING AND LIM LIN LEAN

On 29 March 1984, the Malaysian Prime Minister, Dr Mahathir, presented the *Mid-Term Review of the Fourth Malaysia Plan* to Parliament with some very profound statements in his speech. We quote:

> The wealth of a nation is not something that can arise of itself. It can increase or decrease, depending on the intelligence and wisdom of the people . . . The people must, therefore, produce their output wisely . . . before they can enrich themselves and the nation. Hence, the ultimate source of wealth of a nation is its manpower and its ingenuity.[1]

The importance of the human factor in economic development has long been recognized even by early economists. Adam Smith considered a man's talents to be part of his fortune as well as that of the society to which he belonged. Alfred Marshall stressed that the most valuable of all capital is that invested in human beings. It is therefore not surprising that an increasing number of plans for economic development include aspects of manpower planning such as education, training, skills development, and adaptation, apart from strategies for alleviating demographic problems that are regarded more as social issues.

Goals of Manpower Planning and Development

Since the early 1960s, manpower policies have been developed gradually in many developed as well as developing countries. Despite the variety of policies formulated to suit particular conditions, almost all manpower policies may be traced to three major goals:

1. to balance labour supply and demand;
2. to contribute to social equity;
3. to improve the trade-off between inflation and unemployment.

Balancing Labour Supply and Demand. The most common broad objective of manpower planning is to match labour supply and demand, to tackle "employment problems" and thereby contribute to economic growth. Examples of such an objective of manpower planning may be seen in many OECD member countries in Europe where attention has been drawn to the balancing of supply of manpower to demand for manpower in both quantitative and qualitative terms. Evidently, the

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Europeans have not only attempted to develop human resources and to mobilize untapped labour but also to adjust the supply of manpower resources to structural changes such as those brought about by economic and technological transformations since the sixties. The success of their policies has been manifested in their state of "over-full employment" and perpetual manpower shortages, hence the inflow of migrant labour, at least prior to the recession years since the mid-seventies.[2] However, it is observed that amongst developed countries, emphasis has been placed more on the demand side rather than on the supply side of the labour market. This may be attributed to the influence of Keynesian economic thought since the Great Depression of the 1930s.

On the other hand, developing countries are more concerned with the supply of manpower resources. It is not uncommon to find that many developing countries are still grappling with the very fundamental issues of human resource employment hence development through education, training, acquisition of knowledge and skill so as to create a supply of appropriately equipped manpower that can match the demand for labour. Their goal is also to enhance productivity of their national economies. However, efforts to mobilize untapped manpower and to adjust manpower in line with structural changes, such as through provision of adult training and retraining facilities, seem to rank low in priority in developing countries although they are not totally ignored.

Social Equity. With respect to the second goal of social equity, which is also long-term in nature, manpower policies have been formulated to improve and rectify imbalances in employment opportunities in both developed and developing countries. For example, amongst the former group of countries, the social equity objective featured significantly in the manpower policies of North American economies, where the need to cater to minority groups has tended to result in their relatively higher rates of unemployment when compared with Europe. By permitting a lower aggregate rate of employment, job opportunities for the disadvantaged or minority groups naturally improved. For instance, public works programmes though well used in the Great Depression of the thirties by several governments for overall job creation have been implemented in the United States as selective job creation strategies for the disadvantaged, such as blacks, youth, immigrants, and inner-city populations in order to promote equality.[3]

Likewise, social equity has been accorded due consideration in the manpower planning of many developing countries, especially those that have obtained political independence not too long ago. Besides the question of replacement of foreign manpower with locals, the issue of distribution of opportunities amongst various groups within the population is frequently encountered. It is not uncommon to find both direct manpower strategies such as regulations for controlling numbers or proportions of population sub-groups employed as well as indirect methods such as through fiscal incentives (for example, labour-utilization tax reliefs) implemented for attaining social equity. The situation in Malaysia is an excellent case in point. This point will be further discussed.

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Counter Cyclical. With respect to the third objective, the short-term goal of improving the trade-off between inflation and unemployment means that manpower planning attempts to stabilize employment during the cyclical (business-cycle) downturn and to remove labour market bottle-necks during the upswing. Manpower policies for mitigating the unemployment-inflation dilemma have emerged only in the last ten to fifteen years. The increasing concern with "creeping" inflation since the late sixties has led policy advisers especially in the developed countries to stress the role of selective manpower measures that aim to maintain high levels of employment over the business cycle period whilst combating inflation at the same time. To quote an OECD statement:

> Any move towards economic restraint for the sake of disinflation, which can be expected to create unemployment, should be combined from the outset with preparation of selective counter-action. Similarly, any policy move towards overall expansion through general demand management should be combined with measures to facilitate and stimulate appropriate reallocation of resources so as to avoid the emergence of inflationary shortages.[4]

Experience amongst the developed countries shows that this newer, short-term goal of manpower policies is more difficult to adopt and less acceptable than the older, long-term objectives of human resource development and social equity. Nevertheless, Sweden, for example, showed considerable success in responding to labour market conditions in the late sixties with their emergency programmes and counter-cyclical cum anti-inflationary strategies. However, part of the Swedes' success may be due to the already developed training structures, programmes, and facilities explicitly meant for use at short notice in response to cyclical labour-market developments. Otherwise even amongst developed economies the short-term anti-cyclical concept of manpower policy has met with limited success. We need not discuss the reasons in detail here.[5] The effectiveness of the third objective of manpower policies has yet to be tested in reality. Amongst developing countries, it may be difficult to find examples of strategies of manpower planning and development that are specifically geared towards counter cyclical objectives. In fact, many developing countries view unemployment subsidies practised in several developed countries with great scepticism.

The Role of Manpower Planning and Development in Malaysia

Manpower policies have been incorporated in Malaysia's overall national economic development plans for at least one and a half decades. But despite recognition of the need to alleviate manpower problems such as unemployment and underemployment in the sixties and early seventies, manpower planning had been accorded a secondary role as compared to other forms of economic and social planning such as population and education planning.

Manpower planning in Malaysia has tended to focus on long-range manpower requirements particularly in terms of educational/vocational training,

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that is, on the "skill development" aspect. But despite the recognition that education affects the supply of labour and the quality of manpower, realistic education planning does not appear to have been fully utilized as a major instrument for manpower objectives. For example, where the need for qualified or trained workers goes beyond the capacity of present formalized training activities, non-formal education and training programmes have not been sufficiently emphasized. There has also been insufficient consideration of the manner in which education affects attitudes towards and expectations of work and the gap between such expectations and the actual job market situation.

Secondly, whatever effort at manpower planning appeared to have been preoccupied with the matching of numbers demanded to the numbers supplied. But there has not been enough attention given to the "productive employment" aspect of manpower planning. The play of numbers on both sides was further accentuated by the immense concentration on long-term forecasting of manpower availability and requirements by categories of technical-professional workers and administrative-managerial personnel. For example, the *Third Malaysia Plan 1976–80* indicated (in Tables 8–12) that demand for graduates with medical and dentistry degrees was expected to exceed supply by 24 per cent whilst those with degrees in agriculture and related sciences were expected to be in short supply by 41 per cent. On the technical side, supply of engineering graduates at both diploma and degree levels was estimated to be short by 21 and 39 per cent respectively. The *Fourth Malaysia Plan 1981–85* again expressed concern over the shortage of professional, sub-professional, and technical manpower. The gap between demand and supply was described as "acute".

In considering the mechanisms for bringing together the supply side and the demand side of the labour market, little attention was paid to the productivity of those employed. For apart from education/skills requirements forecasting, manpower planning has also to tackle the problem of productive employment. This is especially important in Malaysia where the majority of poor people cannot afford the luxury of open unemployment and are forced to "create" their own jobs which are often relatively unproductive or offer low remuneration in the informal sector.

Thirdly, the earlier development plans had the tendency of reducing manpower planning to the task of job creation chiefly in the modern, industrial sector. This may be attributed to the rationale that economic development was the answer for solving unemployment; and economic growth to many was equated with industrialization. The employment problem was neither fully or squarely faced as an issue for manpower experts. Otherwise concern for the bulk of the country's labour, located in the agricultural sector, would have been more clearly evident from more substantive manpower strategies in the primary sector.[6]

Fourthly, the role of manpower strategies, subsumed under other macro areas of population planning and manpower planning, was confined to the provision of jobs for men on the one hand and men for jobs on the other. The concept of development of human resources in the broad sense has been given prominence only recently at the launching of the *Fourth Malaysia Plan 1981–85*.[7] To our minds,

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manpower development may be described as the process of subjecting workers and prospective workers to relevant education and training in various fields so as to realize their potential as human resources that will contribute effectively to the national product whilst simultaneously bringing satisfaction to the workers in terms of their physical, intellectual, and overall well-being. In this sense, manpower development in Malaysia is but in its infancy.

Strategies of Manpower Planning and Development in Malaysia

For Matching of Labour Supply and Demand. In view of the increasing awareness of the importance of manpower policies and better understanding of the role of manpower planning and development, it may be useful to consider the objectives and strategies of the country's manpower planners over time. Although direct and explicit policy statements on manpower are not many, a review of the five-year plans reveals that manpower problems have been handled along with policies on population growth, education, health, social services, and labour force. Of paramount importance is the employment objective of whatever statements that referred directly or indirectly to manpower in each of the four economic plans. Specifically, the *First Malaysia Plan 1966–70*, in recognizing the effects of a high population growth rate on employment and economic growth, introduced the family planning programme (by creating the National Family and Population Board) as a definite population policy for ensuring that the benefits of growth are not nullified by rapid population increase.[8] Strategies for industrialization are deemed to be vital instruments for employment creation and economic development.

The *Second Malaysia Plan 1971–75* further stressed that greater effort was required to decrease unemployment that resulted from a larger labour force engendered by the failure to reduce birth rate to match the declining death rate.[9] The National Family and Population Board was given the task of reducing the birth rate from 35 per thousand to 30 per thousand by 1975. The policy adopted in the *Second Malaysia Plan* to limit maternity benefits for civil servants to only the first three children also carried indirect implications for future manpower supply. The *Mid-Term Review of the Second Malaysia Plan* further specified a regional development strategy — with the intention of dealing with the effects of migration and relocation of people both at places of destination and origin — on the geographical availability of labour supply.[10]

Likewise, the *Third Malaysia Plan 1976–80* was concerned with the need for expansion of social services, such as education and health, caused by increasing population growth and urbanization, to the extent that resources which could otherwise be utilized for expansion of the economy had to be diverted for social ends.[11] Again the planners would have liked to have seen the birth rate decline from 31 per thousand in 1975 to 28 per thousand in 1980. It was encouraging to find that the national education policy as spelt out in the *Third Malaysia Plan*, had as its objective the elevation of the quality of education apart from provisions to cope

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with the increasing numbers, thus implications for manpower development.[12] Policies on inter-state migration that bear on labour force supply and demand and hence on economic growth were also included in the same plan.[13]

As before, statements referring to population and manpower issues in the *Fourth Malaysia Plan 1981–85* were concerned with economic growth and employment creation at the macro level. But the *Fourth Malaysia Plan* departed from the earlier plans in being the first to focus emphatically and directly on the importance of "developing" the country's human resources. In particular, the importance of upgrading manpower is seen as a vital task on the basis of the argument that the quality of human resources is a critical input for the process of economic and social development.[14] It is commendable that manpower is no longer given a narrow, subordinate or residual treatment and that manpower planning and manpower development are now more fully recognized as more than mere forecasting of supply and demand to ensure that they eventually balance. Education is now seen not just as a basic social service but as an investment in preparing human resources that in the long run would be instrumental for economic and social achievements. Thus manpower planning and development is now more broadly defined and drawn into the mainstream of the process of economic growth. It is encouraging to note that the *Mid-Term Review of the Fourth Malaysia Plan* continues to pursue the same line of thought regarding manpower policies as indicated in the opening paragraph of this paper.[15] Clearly tremendous scope exists for various pedagogical approaches (for example, in administrative and managerial development and *bumiputra* entrepreneurial development) of cultivating and grooming manpower resources in the country.

It is also interesting that along with the relatively newer perspective on manpower planning and development, the *Fourth Malaysia Plan* also made reference to the possible emergence of labour shortages as compared to problems of labour surpluses and the need for "job creation" emphasized in previous plans.[16] It may not be too unrealistic to think that the manpower planners are aware of the urgency of analysing manpower issues at particular micro-industry and skill-specific levels (in conjunction with problems of population, the employment situation, structural changes, regional and international migration, skill-development, value and attitude changes, and so forth) in terms of both institutions and processes for implementing specific strategies. Undoubtedly, problem definition is difficult and finding workable solutions is even more so. Nevertheless, the concluding section of this paper attempts to highlight briefly some of these pertinent issues, for the purpose of provoking some thoughts on current and future manpower problems in Malaysia.

For Social Equity. Malaysia's national economic plans have also underscored the social equity objective in numerous policy statements. The need to raise income levels of poverty groups, of the rural populace, and of minority groups are more than familiar in all the economic development plans. However, perhaps the New Economic Policy (NEP) announced in the *Second Malaysia Plan* was the most

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revolutionary in terms of its impact on manpower strategies in the sense that social equity along ethnic lines was brought to the fore for the first time. Although not explicit as a manpower policy, the fact that the NEP has as one of its objectives the "restructuring of society", that is, eliminating polarization of race by occupational types, and rural-urban location means that massive re-orientation of the nation's stock of manpower is required and strategies to direct or redirect flows of manpower are necessary.[17] With the basic intention of rectifying economic imbalances amongst ethnic groups, the NEP specifically calls for greater educational and employment opportunities for *bumiputras* at all levels in every sector. Unfortunately strategies for affecting desired flows of other than *bumiputra* manpower seemed to have been neglected, hence the possibility of wastage of labour resources.

The social equity objective can also be discerned from strategies for population redistribution in regional development plans found since the *Mid-Term Review of the Second Malaysia Plan* (as earlier mentioned).[18] In particular, manpower problems arising from the rural-urban gap, from migration flows and increasing urbanization have been identified for action.

Further strategies for population and manpower planning that are heavily weighted towards achieving social equity, such as specification of ethnic quotas for jobs, are also found in the *Third and Fourth Malaysia Plans*.

For the sake of completeness, from the development plans we find it difficult to locate evidence of manpower policies either direct or indirect, that are specifically geared towards the goal of improving the trade-off between inflation and unemployment. Conventional approaches of fiscal and monetary measures are still heavily relied upon for counter-cyclical objectives. It is doubted that a developing country like Malaysia would venture the risk of experimenting with such costly strategies, especially when other developed countries still remain sceptical of their effects.

A Manpower Policy for Malaysia?

The brief review of the situation with manpower planning and development in Malaysia in the last two sections indicates that deliberate effort is badly needed not only to solve manpower and human resource problems but also to ensure that the country's wealth of natural resources is not misutilized or underutilized due to inadequacy of those who deploy them.

First and foremost, a national manpower policy is proposed. Although elements of policy and strategy may be discerned from areas of population planning, education planning, and so on, it is suggested that primary manpower policy statements should be formulated, of course after careful analyses and consideration. In other words, manpower should no longer be given secondary treatment.

Secondly, the national manpower policy should not remain at the macro level but ramify the economy in terms of sector, industry, skill type, and skill level possibly by region and ethnic origin. In other words, aggregative projections of

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demand and supply should be derived from micro level analyses.[19] Issues of manpower flows and mobility arising from both intra-country and international migration,[20] movements amongst sectors and shifts across skill types should be given as much attention as those on manpower stock[21] such as shortages of supply of professional and technical personnel to meet demand,[22] mismatch of men and jobs as reflected in the problems of inadequate utilization of graduates,[23] and labour surpluses hence unemployment. Rather than an undifferentiated mass of labour and a single labour market assumed in the macro approach, it is more realistic to plan on the basis of segmented labour markets with limited labour mobility between these markets.

Thirdly, the national manpower policy should be well co-ordinated and consistent with policies that affect supply, demand, and interaction of market forces within the labour market. For example, on the supply side, demographic, socio-economic, and educational policies should be more closely integrated with the national manpower objectives,[24] rather than just the usual objectives of providing social and welfare services. On the demand side, policies affecting utilization of labour and choice of technology such as those on incentives for investment,[25] for export orientation, and for high technology, again should be consistent with manpower policies, (not ignoring the well-being of workers). Mechanisms for dealing with the supply side and demand side should be more closely co-ordinated to ensure that there is overall balance. Needless to say, distortion of market forces through government intervention are expected particularly when the manpower policy contains conflicting objectives, for example, for growth and social equity. Thus some form of priority assignment under various conditions is necessary.

Fourthly, the strategies for implementing the long-term manpower objectives as spelt out in the national policy should be well integrated into the general economic development plan. A separate manpower plan is considered as ineffective because it may fall outside the mainstream of economic planning activities.[26] However, by interweaving manpower strategies into the general development plans care has to be exercised to ensure that manpower objectives are given due weight.

Fifth, instruments employed for the national manpower policy should be reviewed at regular intervals to take account of changing trends, needs, technologies, values, attitudes, lifestyle, and recent developments. In Malaysia, demographic changes such as the changing role of the family as a production unit, increasing population mobility,[27] and the new 70 million target can be important. Within the labour market, the increasing role of female labour in industry,[28] recent shortages of agricultural manpower[29] (apart from the traditionally well-known shortage of high- and middle-level professional and technical personnel), the second generation problem in land schemes caused by the rural-urban drift as well as the entry of illegal immigrants from Indonesia should be examined for purposes of manpower planning. For instance, in view of pockets of labour shortages, are illegal immigrants, who constitute a supply of cheap labour, hindering technological adjustments because their availability is a disincentive for adoption of new technology that would otherwise have been utilised? Again the rapid emer-

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gence of new technology in science and engineering particularly the use of robotics, computers, genetic engineering, and so on should be analysed in terms of their effects on manpower utilization.

Finally, the concept of manpower planning and development employed for the national policy should encompass a definition beyond the mere play of figures and projections of demand and supply. It should include the broader sense of providing opportunities and facilities for individuals to grow and develop so as to contribute to economic development through high productivity whilst obtaining personal satisfaction from their own achievements. In this respect, there is a need to inculcate an understanding of human behaviour within work situations, and awareness of the need to motivate others at work. Thus, the training of doctors and engineers, for example, should not be confined to acquisition of technology and skills but also the knowledge to administer and manage resources, both physical and human, for efficiency as well as effectiveness. For the longer term, the manpower policy may include elements of permitting strategies to be used as anti-cyclical measures. Basically such an objective amounts to careful and thorough planning ahead of time and flexibility of existing facilities in adjusting to changing national needs.

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The Challenge of Economic Development

Following is the economic portion of Secretary of State Shultz's address to the ASEAN ministers in Jakarta, July 13, 1984.

We face a third great challenge in concert with all members of the international community — economic development. All the leaders of ASEAN have made economic development a major goal, and it has become a central part of the U.S.-ASEAN relationship. But we are all part of a world economy so our efforts must extend beyond the confines of the U.S.-ASEAN relationship.

Prior to the recent London Economic Summit, Foreign Minister Mochtar wrote me and others in his capacity as chairman of the ASEAN standing committee, asking me to bear in mind the concerns of the ASEAN countries as the summit leaders addressed global economic issues. It should be clear from the outcome of that summit that ASEAN'S concerns were very much on our minds.

The first topic Foreign Minister Mochtar addressed was trade. We share the view that trade is a major engine of the development process. Trade liberalization is an indispensable element in insuring that the global recovery will endure and spread. We worked hard to see that the summit declaration urged formal movement on a new GATT trade round. In our judgment a new round will stimulate confidence in the recovery and can offer the prospect of significant benefits to the developing world.

A key objective of a new trade round will be to confront the protectionist pressures that afflict all of us, developed and developing countries alike. On this point, I am sure we are in full agreement. We may disagree, however, on the extent of protectionism now being provided our respective industries.

The United States is frequently accused of bowing to protectionist pressures to the detriment of the developing world. Examples often cited are textiles, shoes, and steel. We do face protectionist pressure and occasionally we are forced to limit the growth of imports of some products. I note with pride, however, that the United States economy is a genuinely open one and that this openness is of great benefit to developing countries. The United States is the world's biggest market for the manufactured exports of developing countries, taking over 50 percent of such exports to all industrial countries. Even in sensitive industries where protectionist pressure is high, imports have continued to grow, often exceeding the growth in total output in that industry.

The complaint heard most concerns textiles. But during the first four months of 1984, textile imports to the United States are 50 percent above the same period in 1983; in the case of the ASEAN countries, the figure is 107 percent. A rate of increase like that in a sensitive American industry causes us real problems and brings an understandable reaction in the United States.

But the increases are there nonetheless. The United States has an open market. Imports are a permanent part of our economic life and we welcome the benefits they bring.

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Protectionism is a danger we all must combat. IMF studies have made clear the damage that high levels of protectionism have caused to certain developing countries. I agree with those who have raised objections to proposals in the United States for local content legislation. President Reagan's administration is vigorously opposed to such laws but the principle of realism is required here as well, for this is a practice widespread in the developing as well as developed worlds. Nor can we ignore the reality that the average tariff level in the developing countries is 30 percent compared to 4.7 percent in developed countries.

A trade issue of particular concern to the United States is infringement of intellectual property rights. American businesses lose hundreds of millions of dollars annually due to the counterfeiting and piracy of records, tapes and other intellectual property. But the even bigger losers are those nations who fail to offer protection to intellectual property. America's high technology companies — for example in computers and computer software — are not going to want to invest in countries where their intellectual property can be stolen with impunity. This will result in a loss to those countries of the types of skills needed to develop a modern industrial sector with well-educated, high paid skilled workers. This is an issue that concerns us all and which must be addressed quickly.

Growth in the industrial democracies is crucial to the trade and thus to the economies of the developing world and — I wish to emphasize — vice versa. Real output in non-oil-producing developing countries is expected to rise 3.5 percent this year, compared to 1.6 percent last year. A major part of this recovery is due to the increase in world trade. Achievement of sustained non-inflationary growth in the United States and maintenance of our open markets are of prime importance to the developing world. Conversely, ASEAN's prosperity has created new markets and enhanced investment opportunities for American business.

The strong growth of U.S. import demand has been the major factor in the recovery of world trade, with U.S. imports up 13 percent in 1983 and an estimated 18 percent for 1984. In the case of ASEAN, increased exports to the United States accounted for over 60 percent of ASEAN's total export increase in 1983. These percentages are pretty big in anybody's terms, but in terms of ASEAN's economies they are huge for the American economy is truly enormous.

The second issue mentioned by Foreign Minister Mochtar on behalf of the ASEAN countries was commodities. In practice, commodity agreements often interfere with market forces to the detriment of rational long-term allocation of capital, land, and labor. Similarly, proposals that would set up a "common fund" are economically unwise, and our disagreement with this concept was made clear at the summit. Bearing these differences in mind, however, we may be able to turn to negotiation along avenues that can lead to practical and economically productive areas of agreement.

The International Rubber Agreement is one commodity arrangement that we both are able to support. We anticipate that negotiations to renew this agreement will proceed in a good faith manner. Another example is the U.S.-ASEAN memorandum of understanding on tin that we concluded late last year, directly as a result of the ASEAN dialogue meeting. We intend to follow the same precepts of realism and diplomacy in examining other commodity issues, including the common fund, which was discussed at London. As you know, to date there has not evolved a sufficient number of suitably-structured international commodity agreements which are prepared to associate with a common fund. The third and fourth topics in Foreign Minister Mochtar's letter were debt and finance. Here the London summit participants agreed that their strategy for dealing with the international debt crisis is working as intended. One of the lessons we have learned in recent years is that over-reliance

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on foreign borrowing to finance development can lead to successively complex problems, especially during an economic downturn. I want to underscore the Williamsburg and London declarations' recognition of the importance of private capital flows to the developing world. Private equity funds can provide an important complement to domestic savings, while avoiding the pitfalls that come with large amounts of foreign debt. Furthermore, as the London summit recognized, foreign direct investment "carries the advantage of being tied to productive capital formation, as well as forming part of the package that includes the transfer of technology and skills." Countries, just as companies, must pay attention to their debt-to-equity ratio. The ASEAN countries you represent have been wise in pursuing for the most part sensible strategies of foreign borrowing. The United States stands ready to work with you to improve the climate for increased foreign equity flows. For example, we are prepared to enter into discussions about treaties for encouraging and protecting investment.

Another aspect of the financial side of cooperation is development assistance. While it can never match trade or private foreign investment — let alone investment based on domestic savings — in terms of its impact on the recipient country, it can play a crucial catalytic role, particularly for the poorest countries. U.S. assistance to the developing world exceeds that of any OECD country. In fiscal year 1983, the United States provided 249 million dollars in bilateral economic assistance to ASEAN countries. Together with security assistance, our total bilateral aide was 424 million dollars.

When one adds in our share of World Bank and Asian development bank loans to the ASEAN countries, total U.S. assistance in fiscal 1983 exceeded 1,000 million dollars. We are the largest participant in the major international financial institutions. We will maintain these flows to the extent that our budgetary conditions permit and we will continue to support the programs directed toward ASEAN of the IMF, the World Bank, and the Asian Development Bank.

Mr. Mochtar's fifth point addressed the North/South dialogue. We believe in dialogue; that is why we are here. That is why we support substantive work in the GATT, IMF, the World Bank, the Asian Development Bank, the Africa Development Bank, the Inter-American Bank and other similar institutions. The forums for the dialogue exist. The institutions for carrying out programs exist. What we must find are practical solutions, working in those forums where constructive action can be taken.

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Statement Issued by the Sixteenth Meeting of the ASEAN Economic Ministers

1. The Sixteenth Meeting of the ASEAN Economic Ministers was held in Jakarta, Indonesia on 7–9 May 1984. The Meeting was formally opened by H.E. Mr. Umar Wirahadikusumah, Vice-President of the Republic of Indonesia and was preceded by a Preparatory Meeting of the ASEAN Senior Economic Officials on 4–5 May 1984.

2. The Meeting was attended by H.E. Pehin Dato Abdul Rahman, Minister of Development of Brunei Darussalam, H.E. Dr. Ali Wardhana, Minister Coordinator for the Economy, Finance, Industry and Development Supervision of Indonesia, H.E. Mr. Rachmat Saleh, Minister of Trade of Indonesia, H.E. Mr. Hartarto, Minister of Industry of Indonesia; H.E. Tengku Ahmad Rithauddeen, Minister of Trade and Industry of Malaysia, H.E. Dato Paul Leong Khee Seong, Minister of Primary Industries of Malaysia; H.E. Mr. Roberto V. Ongpin, Minister of Trade and Industry of the Philippines; H.E. Dr. Vicente B. Valdepenas, Jr., Minister of Economic Planning of the Philippines; H.E. Mr. Edgardo L. Tordesillas, Deputy Minister of Trade and Industry of the Philippines; H.E. Dr. Tony Tan Keng Yam, Minister for Finance and Minister for Trade and Industry of Singapore, and H.E. Mr. Sidek Saniff, Parliamentary Secretary of the Ministry of Trade and Industry of Singapore; H.E. Mr. Sommai Hoontrakool, Minister of Finance of Thailand, H.E. Mr. Phairojana Jayaphorn, Deputy Minister of Commerce of Thailand, H.E. Dr. Chirayu Isarangkul Na Ayuthaya, Deputy Minister of Industry of Thailand, and their respective delegations.

3. H.E. Mr. Chan Kai Yau, the Secretary General of the ASEAN Secretariat, and members of his staff were also present.

4. The Vice-President of the Republic of Indonesia, H.E. Mr. Umar Wirahadikusumah, in his opening address, referred to the Bangkok Declaration as the fundamental basis for the establishment of ASEAN to foster economic, social and cultural development in the respective countries and attain prosperity for the peoples in the ASEAN region. As an association for regional cooperation ASEAN has been able to grow despite difficult political and economic situation and gained international respect and recognition from the developing and developed countries. The Vice-President also stated that the private sector plays an important role in the development of ASEAN economic cooperation.

5. The leaders of delegations were also received by the President of the Republic of Indonesia, H.E. Mr. Soeharto.

6. H.E. Dr. Ali Wardhana, Leader of the Indonesian Delegation and H.E. Tengku Ahmad Rithauddeen, leader of the Malaysian Delegation, were elected Chairman and Vice-Chairman of the Meeting, respectively.

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7. The Ministers reviewed the progress made in economic cooperation within the ASEAN region. They noted that the ASEAN Ministerial Understanding on Fisheries Cooperation which was signed at the Fifth Meeting of the ASEAN Ministers on Agriculture and Forestry held in Singapore on 20–22 October 1983, would further enhance the ASEAN cooperation in this field.

8. The Ministers supported Indonesia's offer to host the Headquarters of the International Tropical Timber Organization (ITTO) in Jakarta.

9. Following the signing of the Basic Agreement on ASEAN Industrial Joint Ventures (AIJV) in Jakarta during the Special ASEAN Ministerial Meeting on November 7, 1983, a step to translate the Basic Agreement into a concrete result has been made. The Ministers approved the first list of AIJV products consisting of the following:

i Constant Velocity Joints (Fixed and Plunging Types) and/or finished, semi-finished parts and sub-assemblies thereof;

ii Mechanical and Power Rack and Pinion Steerings including Tierods, Ball Joints and Linkages and/or finished semi-finished parts and sub-assemblies thereof;

iii Frit; and

iv Motorcycle Electrical Parts (composed of Main Switch Assy, Speedometer Assy, Tachometer Assy, Pilot Lamp Assy, Stop Switch, Head Light Assy, Flasher Relay Assy, Audio Pilot Assy, Fuel Gauge Assy, Ignition Coil Assy, Rectifier, Regulator Assy, Rectifier Assy, Condenser Discharge Ignition Unit, Lever Holder Assy, Switch Handle Assy).

The Ministers expressed the hope that, with this first list of AIJV products, the ASEAN private sector would be encouraged to establish more industrial joint venture projects among themselves.

10. The Ministers considered and approved the proposed Hepatitis Vaccine B Project by Singapore and initialled the Supplementary Agreement to the Basic Agreement on ASEAN Industrial Projects (BAAIP) — ASEAN Vaccine Project (Singapore).

11. On cooperation in transportation and communication, the Ministers expressed concern over the new US Shipping Act of 1984 which apparently did not meet the assurances given during the Fifth ASEAN — US Dialogue December 1983. The Ministers noted that this Act does not contain provisions that will enable ASEAN Shippers Councils to negotiate with US based conferences on General Rate Increase (GRI), unless the present ASEAN shippers councils conform to its provisions. The Ministers also expressed concern that this Act does not exempt ASEAN Shipping Lines from the "Controlled — Carrier" provisions.

12. With regard to the ASEAN Airlines — Lufthansa issue, the Ministers noted with regret the unilateral fare reduction on the West Germany–Hong Kong sector by Lufthansa/Cathay Pacific that will severely affect ASEAN stopovers. The Meeting expressed hope that the prolonged issue be resolved as soon as possible.

13. In reviewing the progress made in ASEAN trade cooperation, the Ministers noted with

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satisfaction that ASEAN member countries have agreed to deepen the margins of preference (MOP) gradually up to a maximum of 50%. In this connection some 3558 items under the PTA have been given deepen MOP effective May 1, 1984.

14. As a step further towards the improvement of trade cooperation within the region, the Ministers noted COTT's decision to consider sectoral approach in determining future exchanges under the PTA. The sectoral exercise will cover canned food, other food products, beverages, and tyres.

15. The Ministers approved the application on 20–25% across-the-board tariff cut on all items with import value beyond US$ 10 million with provision of new exclusion lists. Recognizing that the exclusion lists are the obstacle to the expansion of intra-ASEAN trade through this scheme, the Ministers directed the Committee on Trade and Tourism (COTT) to exert full efforts in reducing the number of exclusion items.

16. The Ministers also approved the additional trade preferences exchanged bilaterally. The Ministers also noted that the tariff concessions have been granted to 18,431 items.

17. The Ministers reviewed the progress of ASEAN cooperation with its dialogue partners and expressed concern over the continuing trade imbalance and protectionist measures practised by dialogue partners which have impeded ASEAN exports from gaining greater access to their market. The Ministers urged the dialogue partners to display concretely their commitment to the stand-still and roll-back of protectionist measures made on several occasions, including the last Economic Summit at Williamsburg.

18. The Ministers noted with satisfaction that Australia had committed an additional commitment of A$ 30.36 million for ASEAN projects.

19. The Ministers also noted that Japan had reduced Preferential Tariff Rates for some products and raised the quota ceiling for industrial products by around 50% during fiscal year 1983. The Ministers however expressed hope that further tariff reduction on products of vital interest to ASEAN will soon be made.

20. The Ministers was informed of the Japanese readiness to host the Second ASEAN — Japan Economic Ministers Meeting. The Ministers were of the view that the Economic Ministers of both sides should make full use of this forum to resolve existing economic problems between ASEAN and Japan. In this regard, the Ministers reiterated the importance of thorough preparations at the level of Senior Economic Officials.

21. The Ministers agreed to propose that a meeting of ASEAN and Japanese senior economic officials be held in late August/early September 1984 with the purpose of coming up with a specific agenda for the Ministerial Meeting which could be held in the first half of 1985.

22. With regard to the US-GSP Renewal Bill, the Ministers urged the US Congress to be more forthcoming in their consideration of the Bill.

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23. The Ministers expressed grave concern over the possible move to impose higher tariff measures against import of canned tuna by the US.

24. The Ministers noted that the EC is currently formulating a Directive on "Containers of Liquids for Human Consumption." The Ministers expressed concern that, possible legislative measures arising if this directive is implemented, include a ban on non-refillable containers, the introduction of deposit laws, or the imposition of discriminatory taxation. The Ministers felt that any of these restrictive measures could have a very serious effect on the market for tinplate within the EC and consequently on the demand for tin. Considering that ASEAN is the world's biggest supplier of tin, the Ministers expressed concern at the threat to tin consumption posed by the proposed Directive. As such the Ministers urged the EC to refrain from suggesting or taking any measures which may adversely affect tin consumption.

25. The Ministers were concerned over the EC intention to change the classification of "fire-cured tobacco" to "Kentucky fired-cured tobacco". They also expressed concern over the move to reclassify tapioca products from Thailand. The Ministers further agreed that appropriate action should continue to be pursued in respect of the proposed imposition of consumption tax on vegetable oils by the EC.

26. In reviewing the world economic situation, the Ministers observed that despite the economic recovery in some major industrialized countries the developing countries have not emerged from the prolonged global recession that has severely affected their economic development. The call of the developing countries for urgent measures to redress the commodity issues through the multilateral producer-consumer cooperation has not been satisfactorily responded. In addition the rising interest rates in certain developed countries have continued to aggravate the debt problem of the developing countries. The Ministers agreed that rising interest rates, if unchecked can endanger world economic recovery and retard still further efforts to reactivate the development process of the developing countries. The Ministers felt therefore that the industrialized countries should pursue concerted economic policies which will result, in keeping with the reality of growing economic interdependence among nations, in sustained economic recovery and accrue mutual benefits to both developed and developing countries.

27. The Ministers recommended that each member country should establish an effective data collecting system on important field such as commodities to be made available to other ASEAN member countries through the ASEAN Secretariat. The eventual establishment of a central data system at the ASEAN Secretariat will help provide up-to-date information and analysis on these commodities.

28. The Ministers noted the need for producers to facilitate a pragmatic balance between supply and demand for commodities of interest to ASEAN wherever possible. This approach is important in order to assist producers in obtaining renumerative prices for their commodities, while ensuring adequate supply of such commodities to the consumers.

29. The Ministers noted that a Task Force on Natural Rubber set up by the Malaysian Rubber Research and Development Board had completed its report. The report would be

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referred to the relevant Ministers of Natural Rubber producing countries for appropriate actions.

30. The Ministers noted the Malaysian Government's intention to establish a physical market for tin in the form of the Kuala Lumpur Tin Market (KLTM) and a tin future contract to be traded on the Kuala Lumpur Commodities Exchange (KLCE), would promote the more equitable participation of producer in the marketing of their commodities. The Ministers agreed to convey to the relevant Ministers, the Malaysian Government's request that the members of the International Tin Council acknowledge the KLTM as a recognized market in which buffer stock operations can be undertaken by the ITC.

31. The Ministers noted that the efforts of ASEAN tin producing countries to intensify efforts to curb the smuggling of tin had succeeded in reducing the overhanging surplus and had helped to stabilize the international tin market. These antismuggling measures had also contributed to the efficiency of export control and as a result, the rate of depletion of tin stocks had been accelerated to about 2500 tonnes per month, from the previous rate of 1000 tonnes per month prevailing in the fourth quarter of 1983.

32. The Ministers agreed that ASEAN should continue to work for the conclusion of a new International Sugar Agreement and to continue to urge the EC to accede to the ISA.

33. The Ministers noted that the activities at present being undertaken by ASEAN in relation to the ASEAN Preferential Trading Arrangement (PTA) and the work of its various Committees constitute effective implementation of Economic Cooperation Among Developing Countries (ECDC) and Technical Cooperation Among Developing Countries (TCDC), and that ASEAN places focus on ECDC and TCDC in the context of ASEAN's active involvement with the rest of the global community, and in particular with the Group of 77, in the common effort to achieve a New International Economic Order.

34. The Ministers considered the possibility of a new round of multilateral trade negotiations. They agreed that with growing signs of international economic recovery, it would be a good time to implement trade liberalization which was essential to the health of the international economy and to the continued economic dynamism of ASEAN. The Ministers however stressed that any round of trade negotiations should improve access to markets of developed countries. The Ministers also stressed, among other points, that for a new round of trade negotiations to receive wide support, commitments undertaken in the Tokyo round should be implemented, the progress of the present GATT work programme should not be impeded, and the introduction of new or additional protectionist measures should be halted.

35. The Ministers agreed that ASEAN should intensify its joint approach in cooperation with UNIDO, and attached great importance to the convening of the Fourth General Conference of UNIDO to be held in Vienna, August 1984.

36. With regard to the ASEAN Task Force Recommendation on Economic Cooperation, ASEAN Machinery and Funding of ASEAN Projects, the Ministers agreed that:

36.1 ASEAN should closely monitor the economic development of member countries in the

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context of sub-regional, regional and global economic developments with the view to identifying areas for cooperation, common strategies and joint approaches, and to avoiding conflicts.

36.2 On matter related to tariff preferences exchanged under the PTA, the exchanges among member countries should continue on the basis of non-discrimination via the most-favoured-nation (MFN) principle.

36.3 With regard to the first set of AIPs, it should be continued and the procedures governing its implementation be streamlined.

36.4 Cooperation in the area of transportation and communication should be further enhanced.

36.5 With regard to the recommendations on the ASEAN Machinery, the ASEAN Secretariat be provided with adequate staff and funds so that it can carry out effectively its functions and that the provision of funds should be carried out through its budgetary system.

36.6 While ASEAN welcomed financial assistance from third parties, the existing ASEAN Fund should be more fully and efficiently utilized for ASEAN projects.

37. The Ministers noted that the ASEAN Trade Fair which will be held in Bangkok on 26 October–4 November 1984, will concentrate on promoting intra-ASEAN trade.

38. The Seventeenth Meeting of the ASEAN Economic Ministers will be held in Kuala Lumpur in early February, 1985.

39. The delegations of Brunei Darussalam, Malaysia, the Philippines, Singapore and Thailand expressed appreciation to the Government and people of Indonesia for the warm hospitality extended to them and the excellent arrangements made for the Meeting. The Ministers also expressed appreciation to the ASEAN Secretariat for their valuable assistance.

40. The Meeting was held in traditional spirit of ASEAN cordiality and solidarity.

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BOOK REVIEW

Multinational Business and National Development: Transfer of Managerial Knowhow to Singapore. By Chong Li Choy. Singapore: Maruzen Asia, 1983.

This monograph presents a case study of transfer of managerial know-how by a multinational enterprise (MNE). The case is that of Esso in Singapore. The information about Esso's operations in Singapore is taken in the main from company literature supplemented by interviews with management.

Dr Chong has little difficulty in showing that Esso has been successful in transferring managerial know-how to Singapore, judged by each of the various criteria he proposes: the initially superior qualifications of expatriate managers, the business success of the imported organization as attested by profitability and expansion, the training of local managers, the indigenization of management through replacement of expatriate by local staff, integration of the organization into the culture of the host country and, finally, dispersion of managerial skills through movement of local staff to other firms. But, as he points out in the concluding chapter, "the ease with which the transfer of managerial knowhow to Singapore has taken place is largely due to the cultural compatibility of the managerial culture of the MNE with the local culture". Singapore, in other words, is not the most demanding test of the capacity of MNEs to transfer managerial or any other know-how to a less developed country.

The two chapters devoted to the case study are preceded by a descriptive chapter on oil and Esso in Singapore and by four theoretical chapters designed to demonstrate that the issues posed by the case study are illuminated by Dr Chong's "power theory of development". It is difficult to find this demonstration convincing.

"The 'Power Theory of Development' relates national development (or underdevelopment) to the nation's possession and use (or non-possession and non-use) of international power." Dr Chong claims for his theory, as contrasted with either the conservative (neo-classical) approach to the study of MNEs or the radical (Marxist) approach, that it has the advantage of being ideologically neutral. "The only fact that can be established amidst these contradictory evidences is that MNEs have always acted in their own interests, and not necessarily coinciding with the interests of host and home nations. . . . As such, their contributions to their host and home nations . . . can be either positive or negative." MNEs control a huge amount of the world's resources. It follows that MNEs can powerfully influence a country's development, positively or negatively. "If more resources are made available for the host nation's development by the presence of the MNE, the latter's contribution to the national development of the host nation would be positive." Singapore, being a small country, "cannot by itself command the use of the resources of others". But its proven capacity to attract MNEs illustrates "how a small and weak nation may, through

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various power balancing operations of the power theory, obtain resources and achieve development''. Transfer of managerial know-how is one way.

To an economist, the notion that national development is a function of possession of *international* power is, in itself, puzzling. Why the emphasis on the resources of *others*? Of course, external resources, whether of capital or technology, can be very helpful. That is why a capacity to attract foreign direct investment by MNEs, such as Singapore has displayed, may make a contribution to national development. But does national development not depend mainly on a country's own resources, natural or human? Dr Chong would surely agree that even in Singapore's case the contribution of MNEs has been marginal. One cannot help but feel that Dr Chong has allowed his thinking to be unduly influenced by the tendency of theorists of international relations to focus on the zero-sum game of power politics.

Again, is it really illuminating to say that MNEs always act in their own interests? Dr Chong cites a case when Mobil was accused by Singaporeans of having acted in a ''heartless and even unjust'' manner by evicting the widow of a Mobil station proprietor and quotes Esso Singapore's proud boast that it ''believes in contributing to the community and society in which it operates''. Would Mobil have contradicted his generalization about MNEs had it been less heartless, and does Esso contradict it by contributing to community welfare in Singapore? Or would both companies have been acting in their enlightened or long-run self-interest?

One might also raise questions about Dr Chong's emphasis on integration into the culture of the host country as part of the mechanism of transfer of managerial know-how. That sounds fine for Singapore or Japan. But what if the culture of the host country includes corruption and other traits inimical to economic efficiency and national development?

Perhaps some of these analytical issues need a little more sorting out. But, as these comments indicate, Dr Chong's well-written essay is both informative and thought-provoking.

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Housing and Development in Singapore

CEDRIC PUGH

Introduction

In any industrialized and urbanized society, housing is a complex good. For developed countries during the last decade or so, housing is seen increasingly as requiring a simultaneous solution to the problems of shelter, social equity, building efficiency, builders' and occupiers' financial needs, and urban and regional networks with complex relationships between housing and other physical, social and economic services. Thus, to understand the subject as the policy-makers are nowadays required to understand it, the study of housing has to extend to the most general problems of economics, finance, social policy, urban policy, and urban administration. If we establish the foregoing as our basic conceptualization of housing, noting its eclectic and conglomerate nature, the circumstances become further complicated when we consider housing in the transformation process from less developed country (LDC) status to newly industrializing country (NIC) status. The further complexity is in the political economy of the growth and development purpose where housing is at once a potentially lead sector in the change process, and a necessity implied by rapid urbanization. These opening statements give outline and purpose to what has to be interpreted and explained in the housing system and the housing policies of Singapore and similar NIC metropolitan areas.

Concepts and scope are not the only source of intellectual interest and curiosity. Growth processes carry some important emotional relationships bound up with nation-building, senses of accomplishment, pride, and the intensities which are called forth in dealing with such social urgencies as slums, unemployment, and the political vulnerability of those who fail to meet the challenges. This increases the politicization of housing, and it is this characteristic which is the major feature for the interpretation of housing policies in Singapore. Housing performance has been a key element in what has been a phenomenal success in economic development and social change. In Singapore, housing is a symbol of pride, of nationhood, of the political achievement of the People's Action Party (PAP), and of government benevolence for the public interest. In housing, this benevolence is expressed through the public housing activities of the Housing and Development Board (HDB). The HDB is set in a context where the PAP, which has held government since 1959, has monopolized political power and restricted some freedoms.[1] This obviously influences the implicit understandings and the relationships between the government, the HDB, housing intellectuals, and

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Singapore's citizens, which include some 70 per cent of the population — men, women, and children — who experience much of their life in HDB flats.

The HDB operates at the most sensitive of interfaces in the social, political, and economic modernization of Singaporean society. The modernization is multicultural, in which the former ethnic divisions of Chinese, Indians, and Malays are residentially mixed in the HDB estates; it is expressed in massive urban investments in planned new towns with related housing, industry, shops, educational, and social facilities; and it is all politically relational to PAP power, to organized and officialized channels of communication between the residents and the politicians, and to an extreme sensitivity to the politics of housing. These conditions act both as facilitators and as constraints in the relationships between general housing policy and operational housing practice which has an enormous welfare and social impact on Singaporeans.

Recognizing the complexities and the contours of political power in housing, we should acknowledge at the outset an important general contribution by the housing policy-makers in Singapore. It is a contribution which has significance for building up intellectual concepts and theory in housing. As Singaporeans know in their routine daily rounds, and as others will appreciate as our themes and findings unfold, political power is used with purpose, with determination, and with some effectiveness in Singapore. One of its marvellous achievements has been in demonstrating a political economy of housing resourcing which, along with Norway's, outperforms any other national example in either the capitalist or the communist world.[2] We shall give due attention to the interpretation and explanation of this achievement, because it is from that source that Singaporeans benefit. Moreover, as we have mentioned, the way the public housing system is resourced and organized represents innovative epistemic worth (that is, the intrinsic value of a theory and a principle) in housing theory.

Our interest in the resourcing and organizational system in Singapore's housing is not the only matter we shall specify and evaluate. We shall be addressing various policy-relevant questions: What has been achieved? How can we broadly interpret the success? What are the recent and prospective leading issues in housing policy development? In finding some changing emphases in the history of policy development, how should we explain the major changes? For the economically curious, how can we conceive of subsidy in housing and the very nature of housing as an economic good, or as a bundle of services? What implications follow from our concepts and the way we define our theoretical categories? Clearly, all of this involves evaluation.

We need a brief statement of criteria, with meaning added to them as we proceed to develop our themes and arguments. Our criteria are social equity, equality, efficiency, economic freedom, civic rights, social rights, and an appreciation of relativism to context in a society transforming from LDC to NIC status. For convenience, the themes that will be discussed are: 1) economic and social value in housing, 2) political development and housing policy, 3) economic issues in Singapore's housing system, and 4) perspectives from sociology and town plan-

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ning. A statistical appendix, with annotations, is provided to support some of the general themes analysed. Essentially, we shall be adopting an interdisciplinary approach, arguing its special relevance to housing. Our intellectual purposes are to interpret, to explain, to evaluate, and to raise leading issues to significance.

Economic and Social Value in Housing

A concept of "housing value" is significant for bringing meaning to the phrase "the political economy of housing". Housing value can refer to both theoretical and empirical dimensions of housing studies. At the theoretical level in economics, housing can be related to the several theories of value in orthodox and other streams of thought. Housing has utility value, it has exchange value, it has value from the use of labour power and from the surplus value in its production; and by its connection to markets, to finance, and to various government policies, it has value from institutions, which institutional economists see as socially derived value. Thus, housing can enjoin value theory in neo-classical, in socialist, and in institutional economics. It can be evaluated from any one, or any combination of these theoretical frameworks. Quine (1969; 1970; 1971) argues well and may persuade us that many things in science can be explained from discussions of cross-theoretical relativism, using various theories in which empirical and other considerations do not clinch the selection of the "best" theory. Certainly, in housing it is useful to take cross-theoretical reasoning.

At the empirical level, econometricians and sociologists have revealed precisely what is "valued" in modern urban housing. Wilkinson (1973) and Richardson (1974) show that value comes from the bricks and mortar, from the dwelling form (house-on-the-ground or flat), from the internal spatial design, and mostly from accessibility to jobs, shops, schools, health services, recreational facilities, and so on. This reveals that housing has mixed private and "public" or "externality" aspects which contribute to its value. The externalities of the wider environment form the major components of aggregate value. Sociologists have elaborated the attributes of value in variety and in relation to the stage in the life-cycle, to social class, and to dwelling form. The key findings are as follows. Families with children aged 2 to 12 prefer house-with-a-garden styles to facilitate the play activities and socialization of their children. Low-income families perceive housing as a haven from a largely alienating external world. Middle-income families see their housing as a personalized extension of their life-styles. Families, especially, find good use for back-garden space, using it for a whole variety of activities connected to work, hobbies, storage, and so on. Beyond this, low-income families and others "grieve for a lost home" when the bulldozer blades bring redevelopment. Finally, in use-of-time studies among the children, the women, and the men in families, we see the home used for study, for work-related activities, for socializing, and for other things which are related to economic production, leisure, and the social development of the community. All of this has been discussed and detailed in my earlier writing (Pugh 1980). Having stated the

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essentials of what constitutes housing value in a modern urban society, we can pursue our evaluations, and note the policies that are variously good or bad.

Political Development and Housing Policy

"Political development" emerged as a specialist subject in studies of politics in the 1960s. The ideas and reasoning in political development are useful for our purpose. They provide criteria against which we can assess the progress of development in Singapore, with some clear relevance to housing. It is implicit within the notion of political development that political systems can, or ought, to be used in a functional way to achieve development. This functional view cannot be detached from the very core of intellectual studies on politics, namely, the relationships between the rulers and the ruled. Further interest and relevance is added here, because some of the literature on political development argues that some coercion for unity and nation-building is implied in effective political development, with the possibility that liberalism and democracy will be limited (Huntingdon and Dominguez 1975; Lijphart 1977). In his mixed roles of politician, leader, and intellectual, Goh (1972; 1983) has similarly argued that LDCs could find full democracy unfeasible or inhibitory to economic growth. Perhaps, then, we should regard some LDCs and NICs as "pre-democratic", leaving the question open as to what the future holds in terms of either a "democratic" or "capitalist-authoritarian" classification. In any case, whatever the future holds, we can take a perspective on some of the political aspects of housing in Singapore in the 1960–83 period. Institutions cannot be completely cut adrift from the societies in which they operate. For housing, we might then expect some strong lines of wider political development purposes in such expressions as landlord-tenant relations, social and community development, and urban renewal. Much of Singaporean "pre-democratic" housing will follow top-down uses of authority rather than participatory movements growing spontaneously to check centralized authority. More is said about this later on.

The 1950s marked the transition of Singapore from colonial status towards full independence. Obviously, this had importance in political development, and more particularly it gave impetus to the political will to do something about the housing problem as it stood in the 1950s. At that time Singapore had all the indicators of mass and deep housing poverty. Rents for reasonable standard housing with good per capita spatial standards were too high for the overwhelming majority of the population. The population was increasing at a high rate of 4.4 per cent per annum; overcrowding was common; the central city area was conspicuous for its slums; and the poorest were "housed" by renting cubicle space on a daily basis. These conditions were the direct result of mass (predevelopment) poverty, rapid urban growth, and chronic housing shortages. However, we should not necessarily interpret this as the negligence of colonialism. As far as housing was concerned, the British had followed the same course of housing reform as had

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occurred in Britain, but with less administrative and economic resources in the Singapore situation.

The broad course of housing reform in Britain had begun with an impact upon environmental health (that is, drains, sewers, and building standards) in the years 1850–1900; followed by a focus upon slum clearance and the opening up or "ventilating" of densely packed structures in the years 1880–1910; and then, consequent upon the rehousing problems of redevelopment, the state was drawn into direct provision of public housing (Pugh 1980). Singapore experienced the same stage-by-stage development with a lag of some twenty-five years or so at the third, and key, stage. In Singapore, official reports and subsequent actions began to deal with the "sanitation" problem in 1907 and 1918. Then, in 1927, the Singapore Improvement Trust (SIT) was created to "ventilate" some slum areas and to make other physical improvements. Soon afterwards, in 1932 and 1937, the SIT's powers were extended to provide public housing. By the time the PAP came to power, the SIT had accomplished a few minor projects and had deliberated some plans for larger scale development. The PAP was to make no bones about it: the problem of housing poverty was to be tackled head-on with strong political will and substantial competence. The best legacies which the British left behind in housing were: 1) a small administrative structure and experience, and 2) the realization that slum clearance, in itself, could provide no real solution to problems associated with housing poverty. I have elaborated the reasons for the inadequacy of the slum clearance (only) approach elsewhere (Pugh 1980). Basically, it leads to bad economics, bad sociology, and many administrative dilemmas.

In 1959 the PAP had a three-pronged approach to housing, poverty, and the slums in Singapore. Firstly, in the context of the politics of the time, with its competition among leftist and moderate groups, housing was a people's issue. The PAP sought the support of the politically-activated masses, who had high expectations following the move to independence and the impetus to manage things better than the British. Secondly, the PAP leaders could draw upon their (then) recent proximities to the Fabian politics of the post-World War II British Labour Party. Housing was one plank in a manifesto for a five-year plan for a positive social policy, which would also embrace education, social assistance, and employment. It was a programme for social justice and equality. Thirdly, the PAP was ready to place social housing purposes into its system of government — which overtly looks as though there is no plan, but which is more appropriately thought of as operating very effective societal planning. The instrument was to be a statutory corporation with extensive powers in land acquisition, town planning, building, development, and the management of urban fixed investments of various sorts — housing, shops, industry, and some social infrastructure. The government would provide the legislative authority, the finance, the resources, and the framework in which administration could take shape and develop. The government's expectations were that the corporation would act executively and set about doing a solid and competent job, with no corruption on contracts, and on buying and selling. The corporation would have to "plan" its operation within

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this framework and from the expectations of higher political authority and of the wider community. These were the key circumstances surrounding the creation of the HDB under the Housing and Development Act, 1960. The HDB has used its political and resource power to fulfil expectations in a quite remarkable way.

Yap (1982) gives figures and social reasoning to show how the HDB had performed. In terms of output of dwelling units and main policy developments, the story goes something like this. Firstly, the HDB has operated in terms of five-year targets and plans, most of which were easily realized except in the late 1970s when a mixture of inflation, government reductions in revenue grants to the HDB, and keen private-public sector competition for resources led to economic and political problems in public housing. Secondly, the five-year building performance was:

1960–65	55,430 units
1966–70	66,239 units
1971–75	108,392 units
1976–80	130,432 units

(Further statistical detail is shown in Appendix Table 1.) Thirdly, Yap together with Yeh (1975) describes how standards of equipment and internal circulation and space have improved over the years. Amenities and infrastructure in the estates and in the new towns have improved, with some post-1979 refurbishing of older HDB housing brought into the regular housing programmes. Generally, as a commitment to town planning principles for new town development, the HDB has built to qualities and standards commensurate with good expressions in Western Europe.

Some important policy developments have occurred during the years 1960–80. In the mid-1960s, the HDB extended its range of dwelling sizes from one-, two-, and three-roomed units to four- and five-roomed units. This also reflected an early urgency to deal with the housing problems of the low-income groups initially, and then to spread the range of provision up the scale of income distribution. By the mid-1980s some 75 per cent of Singaporeans will live in HDB-built dwellings. Home-ownership was added to the earlier general rental programmes in 1964, but was not boosted until households could use their compulsory Central Provident Fund (CPF) credits as downpayment and/or to repay the instalments. This occurred in 1968, and has made home-ownership affordable to many, so much so that by 1980 some 63 per cent of HDB units had been sold to occupants and purchasers. The government ensured that the HDB and other public development authorities could purchase their land at reasonable prices, not inflated by speculation and the transfer of publicly generated wealth to private profiteering (see the subsequent discussions in the section on economics). This was achieved under the Land Acquisition Act, 1966, and in the parliamentary debates on the Bill, on 10 June 1964, Prime Minister Lee Kuan Yew reasoned:

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> Land is a fixed commodity, and with mounting pressure on land as a result of population expansion and development, land values will inevitably rise.

His purpose was to prevent unearned windfall gains accruing, like a "lottery", to private owners and speculators. The Act has been very important to the success of the Singapore public housing programme.

As we would circumspectly expect, the housing programme has not flowed smoothly and without problems. George (1973, p. 101) observes that in the early years the pragmatic urgencies were to get the buildings up, with not much attention to social conditions and to the way people perceived the problems of rehousing. He also notes (1973, p. 102) that as the political conditions in Singapore were stabilized and authority centralized, the HDB's redevelopment of squatter areas was accelerated by what he terms "fires of convenience". These were fires in squatter areas with which the fire-fighting services were unable to cope for various reasons. Problems of potentially greater political significance occurred in the late-1970s and the early-1980s. Yap (1982) refers to price and cost increases in the years 1979–82, ranging from 15 per cent to a high of 38 per cent in 1981. The causes can be related to the spontaneous economic forces of building-sector inflation in the late-1970s, and to the political decisions of the PAP government to restrict the levels of revenue grants to the HDB. The data on revenue grants are displayed in Appendix Table 2, and in particular we can note that the grants fell from S$68.5 million in 1977–78 to S$32.9 million in 1979–80. In the Western democracies during the 1970s, governments reacted to stagflation by shifting financial costs in housing from their budgets to households. But this occurred within a context of monetarist economic ideas and restrictions on public expenditure. In Singapore, the reasons for political economy are different. As Tan (1983) shows, the ideology and policy of the PAP had vastly changed from the 1950s and the 1960s.

Since the mid-1970s, the PAP has been persuading Singaporeans into what it sees as the virtues of self-reliance and self-discipline. At the rhetorical level, the PAP speaks of the disincentive effects of state welfare upon attitudes and work efforts, proclaiming that "state welfarism has no place" in Singapore (*Straits Times*, 10 September 1983).[3] But at the delivery of actual policy, we should interpret circumspectly. On the one hand, the PAP government has expanded job opportunities, and its earlier created framework for government roles in social policy, including housing, has been retained. On the other hand, within the government budget, since the early-1970s, allocations of resources to social policy areas have decreased, with increases in expenditure on defence. However, the government has had second thoughts on allocations to housing (see below), following an electoral setback in a by-election in October 1981. The key literature on the welfare state can suggest how we might interpret this. Firstly, as Wilensky (1975) shows in his cross-national research of allocations to social policy, as countries increase relative expenditure on defence, allocations to welfare state purposes decrease. A good Singaporean example is the government's 1983 Medisave scheme which provides that financial costs of hospitalisation will be

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shifted from the public budget to private provisions. Secondly, we can note that the government's rhetoric and belief about disincentive effects of the welfare state does not really have any basis in international economic research.[4]

As for recent government policy on housing, Tan (1983) and Yap (1982) offer the following comments. In 1979 the PAP government became less willing to meet the rising costs of public housing, consequently reducing the grant payments, as mentioned previously. Housing outlays were shifted to occupiers in terms of increases in rents and prices. At the by-election for Anson in October 1981, J.B. Jeyaratnam of the Workers' Party defeated a PAP candidate, thus becoming the sole non-PAP Member of Parliament. The Prime Minister, Lee Kuan Yew, attributed the PAP setback (if that is how the result is to be interpreted) to housing issues. Consequently, the PAP strengthened its operations in grassroot community development. As for housing resources, the government has used the mildly recessionary years in the early 1980s to increase capital expenditure on housing, and it has increased the revenue grants to the HDB (Appendix Table 2). At the level of party political rhetoric, the PAP says that Jeyaratnam's Workers' Party has nothing about it which has anything to do with workers. And, various silent and public commentators (for example, Tan 1983) have correctly assessed that the PAP's change in ideology leaves it with only a "thin facade" of "social democratic" principles.

Having looked at the "social" side of changing housing policy, we can now turn to the "pre-democratic" side. As illustrative examples, we focus upon some of the socially sensitive aspects of housing policy. At the outset it is acknowledged that the HDB itself undertakes in-house research, but since 1975 it has not published academic intellectual studies of its social intelligence, and information is carefully controlled.[5] The HDB also develops lines of communication, via its own employees who live in HDB housing, to get feedback on resident attitudes to its housing estates.

Writing in 1972 from 1964–68 research, Gamer (1972) outlined resident opposition to squatter clearance and redevelopment projects. He found the usual reasons for resistance — higher rents in HDB rehousing allocation, social dislocation, erasing of cottage industries, higher transport costs in new locations and the unsuitability of new housing (Pugh 1980). Gamer's research was undertaken at a time when there was political ferment in Singapore, with radicals competing with the PAP, with some communal political dissent, and with judicious care in the use of redevelopment powers by the government and the HDB. As the ferment died down and the PAP monopolized political power, the HDB moved more forcefully into the redevelopment programme. Of course, both the government and the HDB would have arguments in justification. Transition from an ethnically-locationally divided society to a multi-cultural society may imply some use of coercive power. It can also point to some social surveys which express satisfaction with HDB housing among residents (Liu 1982). Nevertheless, the key point is that pre-democratic ways of doing things have been used in a sphere where the poor, the socially isolated, and the psychologically vulnerable

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will "grieve for a lost time" and find the use of the bulldozer blades to force their rehousing leaves some traumatic memories (Fried 1963).

Sometimes pre-democratic politics and social issues in housing can be officially interpreted in curious ways. For example, the official persuasions in Singapore for filial piety can lead to good in its own right; and it can save government finance in the long run if filial piety is interpreted to mean that grown children financially support their aged parents. But it becomes strange as housing policy, if a public housing authority uses official persuasions as a key criterion in the preferential allocation of housing to three-generation families. Social research in modernized societies established as long ago as the 1950s that grown children prefer to be in proximity to their parents, but not in the same household. All sorts of useful social interactions go on intergenerationally in such things as child-care, assistance in times of sickness, and so on. This is enhanced by such proximities as being within a twenty-minute walk or bus ride. But that is close enough. Living in the same house intergenerationally for some families leads to tensions and stresses on child rearing, on the use of the kitchen, and on the occasional need for married couples to have a very private argument. Housing authorities, including the HDB, could take a more circumspect view of such things as filial piety and landlord-tenant or general housing operations. Any housing authority which does not know when to leave residents alone to their private lives will generate substantial problems in administration and in community relations.

We have shown that political power in Singapore is not as fragmented, dispersed, and at the disposal of so many to take significant initiatives, as other modern democracies. In Singapore, housing issues do get mediated and discussed politically, but within the framework of politically legitimized channels and by reference to controlled central acceptance or initiative. The legitimized channels for mediating and communicating politically-sensitive housing issues are the Citizens' Consultative Committees (CCCs) and the Residents' Committees (RCs). Ostensibly, the CCCs and the RCs have roles in community and social development, with the CCCs operating at constituency level and involving exchanges between Members of Parliament and local community leaders, and the RCs organized at a smaller zonal level within the constituencies.

Social development is always connected to politics, and especially so in a country which is modernizing. In Singapore, socialization and social development have been used for general development purposes, operating largely, but not wholly, within the (near) monopoly of political power. Housing issues have status, taking a large share of informal political agendas. Such issues include HDB allocations, rents, estate management performance in clearing garbage from corridors and semi-public areas, and so on. Members of Parliament in Singapore will probably have faced more housing matters than parliamentarians overseas. They are the "gateways" between residents, the central organs of the PAP, the government, and the HDB.

The interactions are expectedly fluid, with the aims of mutual influence among the Minister of National Development, the HDB, parliamentarians, and

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the Cabinet. Occasionally, the public has the opportunity to see the process in action. For example, on 15 February 1983, the Minister, Teh Cheang Wan, announced the results of his meetings with community leaders and RCs. His message was that the HDB was taking steps to overcome manpower shortages for facilitating an expanded housing production, that residents themselves should take more responsibilities in the maintenance of semi-public areas in flatted blocks and around estates, and that social development was important to avoid "soul-less monstrosities" in Singaporean housing. Taking a generally intelligent and speculative assessment, we could interpret as follows. Firstly, the PAP has reassessed its allocations to public housing, and will maintain commitment to public housing for social and political reasons. Secondly, high-rise estates have management and cost problems in maintenance, and the HDB has taken the view that there is a limit to what it can do about garbage, noise, and other problems. Thirdly, social problems and, possibly some marked housing-income poverty, are present underneath the phraseology of "soul-less monstrosities".

The foregoing shows that housing information and response from administrators and the government largely depend upon political relationships. The HDB will have as much sociological knowledge as other housing authorities. But its sociologists will have to operate within the constraints of internal power within the HDB and its roles in the top-down and pre-democratic styles of Singaporean politics. The problem with this sort of housing politics is that some key issues do not reach the political agenda, and socially-based reasoning does not flow spontaneously from the relevant professions, from housing intellectuals, and from independently organized people's movements. In short, housing is not a reflection of a plural society. Democratic and plural societies, apart from Norway and a few others, have had great difficulty in resourcing housing on a community-wide basis. Singapore has had no such difficulty. Multiple involvements by competing interest groups can make it difficult to develop coherent resourcing frameworks and effective medium-term housing performance. We now turn to the "economic" sphere to describe and evaluate Singapore's housing resource system.

Economic Issues in the Singaporean Housing System

This section begins with some evaluative statements on general issues and then provides a *prescriptive* view of the relationship between social policy and the economic system as a whole. From there, we shall take a descriptive view of housing in the Singaporean economy, with some attendant evaluative commentary. This will enable us to move from the general to the particular, with focus upon questions of efficiency and egalitarian issues, and other aspects of relevance to policy.

At the risk of over-generalizing, we can say that the welfare state housing experience in developed capitalist countries, with a few notable exceptions in Western Europe, indicates that resourcing for social housing is frequently inadequate in supply, and insufficiently egalitarian if left to the private market. Furthermore, social housing problems have frequently been riddled with economic

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dilemmas on reconciling costs, subsidies, and the capacity of low-income groups to pay for housing. Developed communist countries in Eastern Europe and the Soviet Union have likewise experienced inadequacy of supply and inegalitarian distributions of housing, mainly because industrial investment has received priority, and the technocratic-managerial class has distributed housing and urban benefits in favour of the members of its own class (Szelenyi and Konrad 1979). Among the LDCs and NICs, Singapore has created structural elements in its economic system whereby strong and effective resourcing is allocated to housing, and some resources have been redistributed downwards in limited ways to favour low-income groups.

What has been the economic basis of Singapore's housing performance? Figure 1 provides an overall view of the relationship between social policies and economic structure. Firms are understood to have "fixed capital" in their productive processes, and households have housing and consumer durables. At present we reserve our judgment on whether housing is to be regarded primarily as consumption or for production. Or to put the matter in ordinary language, in due course we may find good reasons for regarding housing as contributing to social-economic output rather than just using up resources from the production process.

The state has a diversity of roles, with only a few selected outline functions, as shown in Figure 1. It has involvements in health, education, welfare transfers, science and technology, and housing. These involvements have various effects on economic production and household consumption, though for simple representational convenience they are shown mainly in relation to household consumption. However, some of that consumption is "productive" in the sense that it maintains and improves the capacity, the qualities, the skills, and the contributions of labour. Technology and higher education is a circuit in its own right, because it has great importance in modern economies, and in countries such as Singapore. Technology has mixed private sector-State involvements, with the State involvements reflecting its economic externality characteristics and its proximate relationships to the education system. The technology becomes embodied in both the fixed capital and in the education of employees — in other words, it is connected both to physical capital and to human capital. In this situation, modern technology poses anew the property rights and the distribution of economic product, because it can be argued that it is part of cultural inheritance and closely connected to broad social and public policy processes.

Housing can be related to Figure 1 in more detail. It is a place of economic work for housewives and house-husbands. It is a place related to work in other places, by virtue of study, "homework", and various supports to trade and industry. It is a place where the younger generation has differential opportunity to study, to learn about life, and to take opportunities in the wider urban environment. It is a place for familial and filial affection, which has important social and economic consequences. It is a "durable" which is connected to State finance, to the capital market, and to the building industry. For most households, it is the major lifetime expense, a major commitment, and it is closely bound up with

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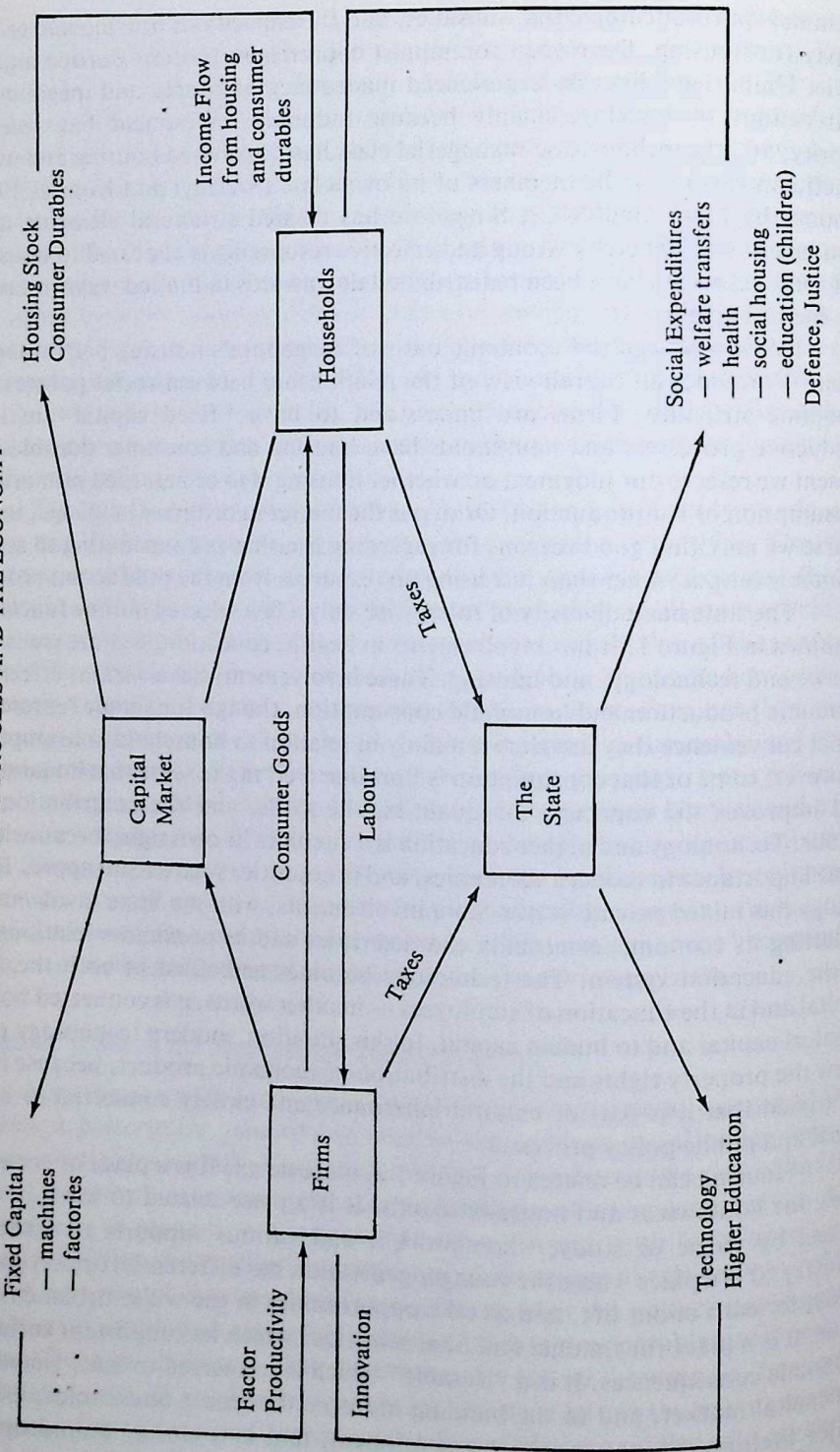
FIGURE 1
THE SOCIAL POLICY PROCESS AND THE ECONOMY



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emotions and the quality of human happiness. Even for technology, it both receives something from the process of change and can contribute to the wider change. We can derive more detailed descriptive understanding of its general economic relationships in Singapore by examining Figure 2.

From Figure 2 we note the key role of the State and its instrument, the CPF, acting as financing and resourcing intermediaries, and thereby tilting economic resources in favour of a total housing system. In effect, the CPF is a means of obtaining forced savings, and though originally designed and constructed to secure economic provisions for old age, as a social fund it has been used for housing and other social and economic investment purposes. As our statistics in the Appendix indicate, in 1980 some 23 per cent of CPF contributions for that year were withdrawn for home-ownership purposes. Our figures also show that in the 1975–82 period, housing absorbed some 1.8 to 2.7 per cent of GDP, and some 11.6 to 22.0 per cent of gross capital formation. These percentages of housing in GDP would increase twofold if we included housing equipment and fittings, and expand again substantially if we were to add some urban infrastructure. Public housing amounted to some 86.2 per cent of total residential construction. These statistics and the structure depicted in Figure 2 make Singapore's effort in social housing quite remarkable, and along with Norwegian housing, the most impressive in the world.

In Singapore, housing has been conceived and operated as part of a cumulative economic and social development, and not as an appendage to a weakened development profile as is evident in many other countries. Housing has been at once both contributory and responsive to economic, social, and political development. It has interactive cause and effect relationships in an upward spiral of change, with these relationships integrating with economic development, with better living standards, with environmental health improvements, with education policy, and with a general modernization of attitudes and behaviour. Beyond what Figure 2 can show, the housing policy framework has been used to develop a multiracial (unified) society. The policy-makers have used redevelopment and rehousing to move locationally-ethnically divided communities into multiracial HDB blocks which have some segregation along income divisions, but not expressly along ethnic divisions. As Hassan (1977) has shown, the HDB has managed its estates and Singaporeans have largely merged their lives with useful success in the direction of multiracial acceptance. The policy framework comes from a PAP-led clear sense of national direction and priority which is not encumbered or frustrated by organized and narrow sectional interests.

HDB housing is financed from government loans (10 years at 6 per cent interest for home-ownership housing, and 60 years at 7¾ per cent for rental housing), from government grants, and from revenue from rents and sales. Housing, urban development, and land policies are co-ordinated. The government and its agencies have engaged in a large land purchase programme using powers of compulsory acquisition, and paying for them at values which subtract "betterment" value from public and general community investment. Consequently,

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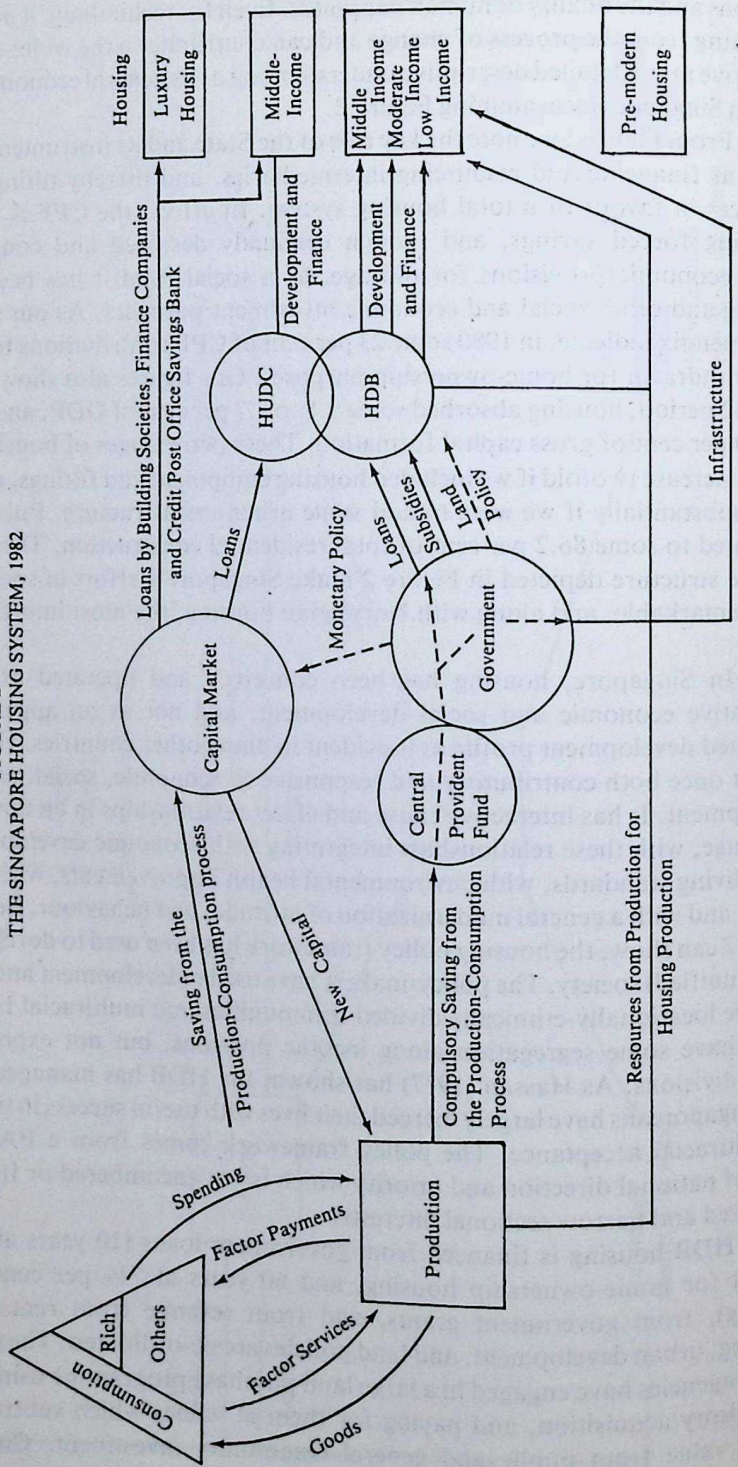
FIGURE 2
THE SINGAPORE HOUSING SYSTEM, 1982



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acquisition is at less than "market" values, but, as we shall presently see, this does not mean that the housing reflects inefficient subsidy. By referring to Figure 3 below, which relates the housing system to the distribution of household income, we can obtain further understanding of the Singaporean housing system.

Like other capitalist countries, Singapore's household income distribution is characterized by large inequalities. The richest ten per cent of households take about thirty per cent of total income and the poorest ten per cent have only some two or three per cent of income. In relating household income distribution to housing, a number of points has to be borne in mind. Firstly, although income proceeds continuously through the distribution in small marginal changes, the housing system has step-like thresholds, affecting access and mobility. Secondly, it is income which is antecedent in every sense, consequently leaving such things as housing with only limited potential as equalisers. Thirdly, notwithstanding point two, egalitarian objectives in housing can be important. Finally, for Singapore, as we have noted, the rhetorical politics of the 1960s was in favour of social justice and equality, whereas in the 1980s it is pointed towards inegalitarian meritocracy and individual self-reliance. Regardless of the rhetoric, in reality we must note that the statistical and social science evidence on poverty in Singapore is rather fragmentary and discontinuous. However, we have enough evidence *to suggest* that housing poverty is significant in Singapore, mainly concealed in HDB one-roomed flats, in some older and delapidated shophouses, and in some pre-modern dwellings. The HDB would have much current information on this, but it is not available for publication, and it is a subject largely ignored by Singapore's social science intellectuals.

Figure 3 divides households into three categories, A, B, and C. Households in Category A live in luxurious, expensive housing by type, location, and sometimes by size. Their housing is variously in condominiums, in cottage-in-its-own-grounds styles, and in other types ranging in price from S$250,000 to S$1,500,000 and more. It is financed from Singaporean capital markets and from international business corporations which provide housing as fringe benefits for senior appointments. Households in this type of housing are rich in wealth, or at top levels in businesses or the professions. Some of the housing is at low density, but unlike some housing in Category C, the occupants seldom face the threat of redevelopment from government housing and urban investment programmes. Stated in another way, if the creation of higher densities were the only housing objective *per se*, then we would see more redevelopment of high-income housing areas than of low-income housing areas.

Households in Category B (middle-middle class) have faced some housing problems owing to the large cleavage and step between luxury housing and the HDB rental and home-ownership programmes which have some income eligibility limitations (see below). The government created the Housing and Urban Development Company (HUDC) in 1973 to develop and sell housing in this income range, but since 1982, it has been reorganized within the nexus of the HDB, although the original purposes are largely retained. The allocation and pricing

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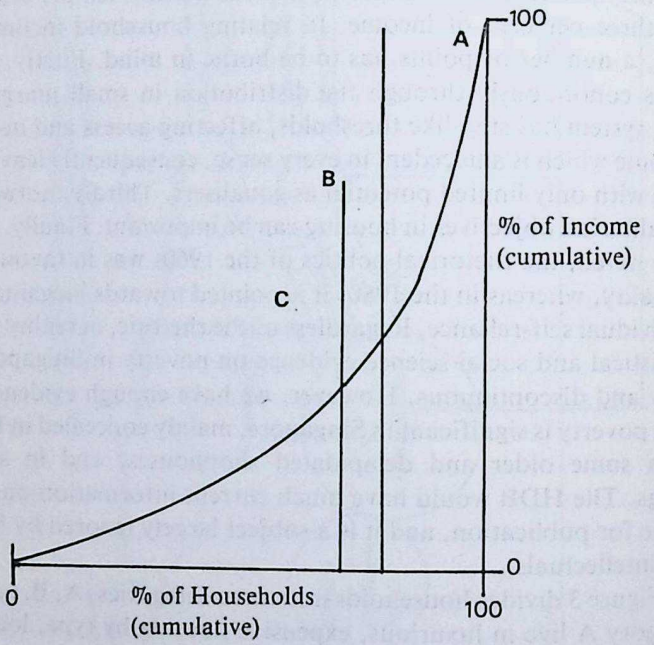
FIGURE 3
HOUSEHOLD INCOME DISTRIBUTION AND THE SINGAPOREAN HOUSING SYSTEM



policies in HUDC housing have attracted much attention and political sensitivity in Singapore. Supplies of this housing are limited, and, as was mentioned, households in this income range face restricted opportunities, with HUDC housing presenting good and cheap value in relation to alternatives. HUDC flats and maisonettes sell in the price range of S$174,000 to S$283,000, an increase of 143 per cent in 1982 when the government changed its policy, ostensibly to prevent profiteering and speculation by purchasers. The housing is to serve income groups in the range of S$42,000 to S$72,000 per annum, and the prices are some 30 to 40 per cent cheaper than private-sector housing of similar quality.

Households in Category C have been absorbed rapidly into the HDB programmes from 1960 to 1983, with only some 200,000 Singaporeans remaining in pre-modern housing — that is, rural squatting and city slums/shophouses. The HDB has a resettlement programme, coupled with a government policy, to resettle the squatters and shophouse dwellers at the rate of more than 20,000 per annum,

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and completing the programme by 1990. Most squatter housing in Singapore is sanitary, well serviced by public utilities, and the occupants are fully urbanized in their life-styles. It is mostly good housing.

Some sixty per cent of HDB allocations go to families in income levels below S$16,830 per annum, with about twenty per cent to families with income levels below S$5,616 per annum. However, the HDB provides housing to a wide range of income groups, reaching to the middle-income group earning $41,400 per annum. The allocations separate households by size of dwelling and income groups. The poorest live in one-roomed flats (with occupant-provided partitions) and the better-off groups are allocated five-roomed flats, with further graded size-income separations within the one- to five-roomed range. For renters, the "subsidized" rents range from nine per cent of family income for one-roomed flats, where income eligibility is to a maximum of S$9,599 per annum, to eighteen per cent for three-roomed flats. Home-ownership units, with three-, four-, and five-roomed flats, range in price ("subsidized") from S$21,000 to S$123,000. The HDB dwellings are mainly in mass-project flatted blocks, with design and environmental variations according to policy at the time of building.

Economists and others are interested in the "subsidy" element in public housing which is not amenable to clear-cut and neutral definition. However, we can draw upon statements in the Singapore Parliament to give very broad and rough estimates. The following figures were cited on 17 March 1977, and they relate to average subsidies for one-, two-, and three-roomed rental flats for 1974–77. Thus, we have S$780, S$720, and S$660 per annum respectively, for the one-, two-, and three-roomed units. We are cautioned that variations occur from location to location and from different dates of construction. Basically, rents are fixed in relation to the state of the HDB's revenue account, the willingness of the government to supply grants, and a range of social and political considerations. Historical costs and the possibilities for internal cross-subsidization within the HDB also have some influence on rents. Generally, the effect is to redistribute income downwards in a limited way, and more significantly to keep rents reasonably affordable and below many private sector rents. Nevertheless, housing poverty is a reality in Singapore life, and, of course, Singapore is not alone in having this social problem.

During the last years of colonial government in Singapore, Goh Keng Swee, then Director of Social Welfare (Social Research) at the Department of Social Welfare, and later a leader in the PAP government, undertook a social survey of housing and poverty conditions (Goh 1958). Using the well-tried methods from the nineteenth-century British Booth and Rowntree studies, Goh defined his "poverty line" in terms of subsistence needs standards, with associated budget costs for representative families. This method leads to an austere definition of poverty. Goh found that the city area which he surveyed had some 73 per cent living in overcrowded conditions. Calculating minor variations to needs standards in different families, he estimated that some 35 per cent of the population fell below the poverty line, that is, some 21.2 to 23.5 per cent of households. Those most

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vulnerable to poverty were women and children in single parent families, the sick, and the unemployed.

Cheah (1977) followed Goh's methods and basically adopted Goh's poverty line concepts. He relied on aggregate household income data, contacts with the poor, a small social survey of the poor in Toa Payoh, an HDB new town, and a willingness to make assumptions in estimating aggregate poverty. Cheah's basic methodological problem was in connecting his disaggregated survey data to some official aggregated statistics. With caution in mind, we report his findings. Poverty levels had increased. Broadly, the population in poverty increased from some 25 per cent in the mid-1950s to some 35 per cent in the mid-1970s. Although the *average* figures for economic growth in Singapore were indeed impressive, poverty persisted as a problem. In terms of housing, some conditions worsened when the poor were rehoused from squatter dwellings and shophouses to HDB flats. They had lower room occupancy ratios in some pre-modern housing with 3.6 persons, but this increased to 5.0 persons when they were rehoused in HDB flats. The housing conditions in HDB housing and the poverty led to severe constraints on the chances of the children, who prematurely left the education system to take low-paid jobs. The poverty also meant that for this section of the population, home-ownership was not a realistic opportunity. They could not accumulate assets via home-ownership, an important means of deconcentrating wealth in a limited way in capitalist societies.

How does poverty remain in a growing economy? Growth bypasses some groups who tend to be employed in marginal occupations, in which modern methods of production are rare. They can move only horizontally in occupations, not vertically, because their skills and attitudes are not conducive to the requirements of modernization. It is at the disaggregated level that we find poverty. The whole question deserves more attention from policy-makers and social science intellectuals in Singapore. It is just possible that modest increases in taxation among the better-off groups would be sufficient to make useful improvements in the living standards of the poor. For housing, it is a matter of contemplating higher spatial standards and better internal circulation design standards. Some poor families had those better spatial standards in their pre-modern housing,[6] thus calling into question some aspects of redevelopment policies. From the point of view of social efficiency, in-kind provisions of space are probably of more value than equivalent cash-income transfers. At least, it would be the case that some children of the poor would have better chances in life in a meritocratic society if they had adequate housing space and a sufficiency of cash income to participate in key activities in the development of human capital.

Let us sum up some of the important aspects of housing policy and inequality of incomes in Singapore. Firstly, we have seen that public housing redistributes income downwards, leading to lower rents and prices than we would expect in privately provided housing. Secondly, research from the 1950s and 1970s reveals the presence of income and housing poverty in Singapore. One aspect of this housing poverty is that space standards deteriorate for some families in public

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housing. This has significance for the chances of their children in life in particular, as it may inhibit vertical mobility in society. Thirdly, the HDB–CPF home-ownership programmes will tend to deconcentrate wealth to a limited extent, but nevertheless in socially significant ways. Fourthly, the change in the PAP's ideology towards justification for an inegalitarian meritocratic society raises both general and housing-related issues.

Having reviewed matters on equality in housing, some aspects of economic efficiency in housing is now examined. Our brief discussion hinges on the question of whether housing is "subsidized", either in a general sense or in the Singaporean context. Sometimes it is said in Singapore that public housing is subsidized by virtue of low-priced land, the below market rate of interest (BMRI) of CPF funds, and the expenditure grants by the government to the HDB. Taking a broadly critical view of the question of "subsidy", we argue that subsidies in housing are neither readily specified nor measured. Ultimately, the major question is whether we consider housing to be over- or under-allocated in the basic economic sense.

Whether we regard Singapore's land policies as a subsidization to public housing is a question of interpretation. Economists who believe land is like other resources, and who accept all speculation as functionally useful or legitimate would argue that public housing in Singapore is subsidized from the provisions of low-priced land under the Land Acquisition Act, 1966. Others who are prepared to question the legitimacy of an unattenuated property right in land, and who are cognizant of speculative effects attached to land in a growing urban economy would reject the notion that subsidization follows from that Act. They would argue that the Act counters an upward "ratchet price" movement, an imbalance between private and social interests, and an inequitable transfer of wealth from the young and the less affluent to the older and more affluent. In addition, they could argue persuasively that land acquisition by the public authorities leads to a better expression of social (externality) benefits and to better co-ordination of urban investments. They would commend the policy. This is my position, and the full principles are elaborated in my work (Pugh 1980) and in Neutze (1973).

We now take up the issue of interest rates, and the BMRI of CPF funds. Again, whether we conclude that housing is thereby regarded as subsidized is a matter of interpretation. Those who argue that this is subsidization would say that the low rate of interest pulls resources into housing, or "distorts" its true cost below market-conditioned results. On the other hand, it can be argued that market rates of interest reflect only *private* valuations of investment and saving. A *social* valuation is quite different. It is different because, firstly, social views of the future are not necessarily as myopic as private views, and secondly, the extent of social costs (that is, negative external effects) is not fully taken into account in private valuations. In a more general sense, in welfare economics, a private-sector *Paretian* optimality (much referred to by orthodox economists) does not coincide with a social optimality. It can also be argued that in housing, resources are under-allocated rather than over-allocated because housing is conventionally conceived as "consumption", not "production". A production-based con-

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ceptualization has allocational and distributional considerations favouring housing.

In the conventional sense, until recently subsidies had been regarded as expenditure grants by governments with the aim of reducing price at the point of consumption. However, as argued by Rosenthal (1983), more recent work in the theory of public finance suggests that it is by no means easy to specify and to measure "subsidies". In fact, our discussion so far has raised questions about pricing of land and capital funds. Beyond that, we would have to consider the taxation-related effects of tenure, capital, and capital gains in housing. As I have shown elsewhere (Pugh 1980), there is no technically or politically neutral way of comparing "subsidies" among tenures and in relation to the housing system as a whole. Many countries have only low (or zero) taxes on the imputed rental value of owner-occupied housing, and capital and capital gains taxes are minimal. The upshot of all this is that very often the more affluent groups living in home-ownership tenure are more favoured and "subsidized" by public policies than poor groups which are dependent upon private and public rental housing. The position in Singapore is roughly as follows: the government supports the HDB with expenditure grants to keep rents and prices lower than market levels. Some cross-subsidization occurs within the HDB's consolidated budget, and specific "subsidies" cannot be traced in its accounting system. Home-owners with high value housing are taxed on imputed rental value (that is, net annual values above S$75,000 are taxed), and this acts as a partial equaliser. Singapore also has a property tax, but this is levied on owners, not on occupiers, and its incidence on occupiers is not clearly known either in principle or in statistical research.

As was mentioned, the real question is ultimately a matter of whether we regard housing as over- or under-allocated. *Laissez-faire* economists will argue that it is over-allocated, drawing upon older ideas of how subsidies *should* be specified. Others will argue that housing is too complex to be subjected to simplistic definitions of subsidy, such as argued in this article. Those who want to draw upon new theory will find good grounds for arguing that housing has largely been improperly conceptualized in economic terms. It has been viewed as consumption and as a competitor for scarce capital resources, whereas new work suggests that we look at housing as production (Apps 1975a, 1975b, 1978, 1981; Becker 1973; and Stretton 1976). When viewed as production, not consumption, housing is seen to be under-allocated, or, at least, its various "subsidy" forms can be understood as compensation for under-allocation in an otherwise free-market world. Let us examine what all this means.

Stretton (1976) views housing as the central social and economic asset in the "domestic sector", which is defined as part of the economy in which capital, resources, time, and energy are used for such things as housework, cooking, gardening, hobbies, social meetings, neighbourhood social development, and so on. However, this productivity is not marketed, and economists have largely ignored it. Economists recognize a public sector and an enterprise sector, measuring output in these and aggregating it into a GDP. According to Stretton,

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the omission of the domestic sector leads to an under-statement, and to a distortion, of economic activity. It is as though we would measure the output of a factory as the rental value of the building and land, ignoring the output produced by workers using machines and intelligence. The conventional theoretical precepts used to allocate resources to housing do not fit the domestic sector's true productivity, which does not enter market exchange, and cannot, therefore, raise finance from its own returns to resource it. Instead, finance has to come from wages and returns in the enterprise sector, and from subsidization in the public sector. In short, the argument that housing does not get its due is one clear implication from Stretton's thematic criticism.

Becker (1973) sees a household as a production unit, intent upon maximizing satisfaction or utility. As a production unit, the household combines market goods (as inputs) and household labour to produce goods and services (as outputs) of ultimate satisfaction or utility — such as child rearing, social interaction in the family, meals, recreation, and so on. Apps (1981) takes Becker's ideas further. She argues that the dependent spouse, usually the housewife, receives "wages". That is to say, the housewife is "paid" by the breadwinner in the form of food, clothing, other things, and shared goods. The payment of wages is for the work which goes into producing household services. Apps further argues that these wages in the household sector are pressed to low levels, this being caused by discrimination. Discrimination is connected with sector separation in the employment market. What happens is that in the managerial and professional sector, which is mainly occupied by males, institutional restrictions are created to ensure low supplies of labour to that sector. This pushes up incomes in that sector. But in some non-professional sectors, labour supply is crowded, leading to low wages in these sectors and in their closely related sector, the household. The end result is that managerial and professional sectors are characterized with high incomes, high level technology, substantial human capital, and fringe benefits, whereas the housewives in the household sector experience low wages, low levels of technology, and no effective incentives to improve their human capital.

In the Singapore context, we can take the ideas of Becker and Apps further than their conclusions that the domestic sector is, perhaps, under-allocated. During 1983, Singapore's political leaders became interested in the demographic statistics showing that educated young women seem to prefer lower rates of childbearing, and even single to married status. Educated young women have more economic and social options than the non-educated. They can choose a higher quality of life in paid employment in the managerial and professional sectors; they can achieve high incomes; and they can weigh up all of these continuing opportunities against working for men in marriage in a four- or five-roomed HDB flat. The statistics show how they are choosing, and this probably reflects their intelligent "domestic sector" economic choices. We can also draw upon Becker and his co-authors to interpret the lower birth rates in higher income marriages (1973a; 1973b; 1976). The "economic demand" for children can be rising, although birth rates are falling. What is happening is that

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faced with the situation that however hard they try young men and women cannot guarantee that their several children could be immaculately conceived to be ultra gifted, they use some of their increased income to improve the quality of the children they actually do have. These children have more tutor time, more home computers, more overseas holidays, and more parental attention than those in a hypothetical family of three or more children. Perhaps parents and governments can do more about improving the emotional and human capital aspects of child rearing than in trying to influence each particular child's genetic inheritance. At any rate, housing is well connected to economic and social aspects of broad social development, and it may well be a factor taken into consideration when intelligent young women decide whether to commit their work to marriage and child-rearing.

In summing up our wide-ranging evaluation of economic issues in Singaporean housing, we can state the following: the basic resourcing and financing system uniquely provides adequate supplies of housing. HDB housing has some downward redistribution effects, but housing poverty continues to exist. Some of this housing poverty could be reduced with some relatively minor reforms. Whether we conclude that Singaporean housing is over- or under-allocated, depends upon our cognitive and ideological views of subsidization and social welfare. We would argue that more than most countries, Singapore has commendably ensured high rates of supply. Recent social statistics seem to suggest that the equality of housing and of life generally has some influence on how young Singaporean women, who have tertiary education, will choose their life-styles in the domestic and the enterprise sectors. It may be a good idea to have more women having influence in developing housing policy and housing practice in Singapore. We may thereby obtain more humanistic dwelling types and more social intelligence in the administration of housing.

Perspectives from Sociology and Town Planning

Hassan (1977) has conducted some careful and useful sociological analyses of low-income families in HDB housing. His research shows that the HDB has managed its estates and Singaporeans have managed their lives with useful success in the direction of multiracial acceptance. This result comes from a clear sense of national direction and priority, emanating from the PAP leadership. The priority has not been encumbered or frustrated by organized and narrow sectional interests. That has been good politics and good sociology. Hassan's intensive sociological study has also found evidence of 1) poverty, 2) worry, stress, and weakened parental control over children (especially in their play activities) in high-rise dwellings, and 3) some very cautious and fatalistically resigned respondents among those interviewed. Apart from this, in Hassan's and in other surveys, HDB residents have by and large expressed "satisfaction" with their housing. This, of course, tells us very little about what their satisfaction would be if they were offered alternative types of housing and if they had more experience in expressing their wants in social and political processes. What sort of housing alternatives would

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conceivably be made available? One approach to this question is to consider densities and dwelling forms.

In a careful comparative study of urban shophouse neighbourhoods and new HDB estates at Toa Payoh, Fonseca (1976) showed that in the Singaporean context at the "micro" level, HDB-style high-rise forms (like high-rise forms in most countries) waste space between buildings. Modern sociological research shows that low-profiled dwellings produce better and greater use of space.[7] It also indicates that these dwelling forms can give us acceptable medium to high densities. Singapore accepted the town planning ideology of high-rise building from overseas at the time of its initial technological feasibilities and under the urgency of housing shortages in the 1960s. As I have shown in width of arguments and in statistical economic research elsewhere (Pugh 1976, 1980), the ideology is mostly a synthesis of misconceived ideas.

The HDB argues that its practice is justified by severe land supply constraints. It also fills its recent publicity brochures with such planning terms as "identity", "social awareness", "design innovation" and so on in persuading us of the improved aesthetics and social functioning in its new estates. It is said that the new estates will look less monotonous than older ones, and there will be more social infrastructure. We should be cautious about accepting these arguments. As far as can be ascertained, the HDB has not proceeded to systematically analyse and elaborate alternative dwelling forms, densities, and their sociological and economic consequences for the Singaporean context. Many cities in the modern world have populations of over four million people, with dwelling forms which have much less high-rise expressions, and with those cities occupying less land area than that of the island of Singapore. The HDB would respond to this comment by pointing to its increasing social mix of estates, and the inclusion of "human scale" four-storey buildings among the taller blocks in new estates (see *Straits Times*, 6 and 10 September 1983). Our scepticism would push that reply hard. What we are saying is that low-rise housing is cheaper than high-rise housing; it is better in its social functioning for low-income families; and quite probably it could be achieved on a larger scale than at present in Singaporean public housing. By low-rise housing, we are referring to medium-density development arranged with mixes of one-, two-, three-, and four-storeyed dwellings, with some occasional dwelling forms of over fifteen storeys. Furthermore, we might not be impressed with exhortations to be socially disciplined so that high-rise problems will disappear. In our (hypothetical) low-rise dwellings we can dispose of our garbage and play our stereophonic music without disturbing our neighbours. Garbage and stereophonic music are part of modern Singaporean life, and we could be provided with the sort of housing which enables us to be more readily compatible with the noisy family next door, and also compatible with our own garbage disposal patterns.

Why don't we get what we might prefer? We can suggest the answer from Niskanen's analysis of similar situations in bureaucracy and client relations (1971). The clients are in a dependent relationship to the bureaucracy, which obtains its resources centrally. In short, the bureaucracy has monopoly control in

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a situation where housing choice is constrained. Also in the circumstances prevailing in Singapore, the HDB does not have to concede anything to independent criticism, though it does concede some things in the officialized and legitimized political channels. Beyond that, and with sincere intent, the HDB would argue that it is right; and we would concede that, with good argument, it might persuade us that this is the case.

Conclusion

We have ranged widely over many issues, and the conclusions have been stated as we proceeded. Thus, we can be selective and just highlight two major issues. In the first issue we shall be prospective, stating simply what could emerge in a transition from pre-democratic political development to fuller democratic characteristics. Then, in the other issue we can state the major contribution which Singapore's policy in housing has made to general housing theory.

A pre-democratic society has a greater monopolization of political power than one which has fuller expressions of democracy. This can bring both problems and opportunities in the progress of housing policy. The key problem is that a more plural society can lead to difficulties in formulating and operating coherent policy. Sectional interests and an overloaded information system can potentially break up a system that has produced much good in social and housing welfare. State power has been central in the Singaporean housing system, and we must concede that the use of the polity has been crucial, even with some necessary coercion which follows in delivering good social policy. It is largely a question of how to use coercion or persuasion judiciously.

The problem with strong power is that clients' wants sometimes go unheeded. In Singapore, these clients' wants would range from a more varied expression of dwelling types, to impetus and leadership for the Singaporean poor and their housing problems. More generally, in democracy, the notion of the welfare state is that it springs from *social rights* (Marshall 1964). Social rights are an extension of civil and political rights, ensuring access to certain necessary goods and services. As *rights*, the citizens see themselves as being treated as the subjects of welfare, not the objects of the vision of others, however benevolent that vision may be. In practice, this would mean that the poor have clearly defined rights to social income and social housing, these not being simply at the discretion of administrators. The rights have remedies and appeals which individuals can pursue. We do not suggest that all the liberal democracies fulfil these conditions in their operation of social policy. Rather, we see some expression of democracy when we can find widespread concerns to maintain social policies for humanitarian and for social purposes. A society which *effectively* pursues full meritocracy in a private market system would run into some problems connected with social justice. The poor would *feel* marginalized. Their feelings would scarcely be improved if the only thing the housing system offered them, as they saw it, was to be grateful to some administrator whose job efficiency depended upon packing them in and

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stacking them high. They then become the conspicuous and self-conscious "failures" and the better-off are said to be better off because they merit this. Part of "merit" becomes the delivery of larger and more congenial housing to the rich, and the lower end of the housing stock is interpreted as functional to the economic system. This offends broader principles of social justice.

In retrospect, and in high profile, the Singapore housing system by its very effectiveness conceals some important intellectual insights into how a good system can be resourced. If we were to set about writing about housing theory as operating guidelines it would be something like this. Firstly, ensure a flow of resources and finance into housing from the savings of the community. If necessary, make some of this saving compulsory, with political decisions on the way it is to be re-allocated. Secondly, create a statutory development corporation, complete with powers and resources to plan and build social housing. Thirdly, relate the access to that housing to a wide range of income groups, starting with the poor. Fourthly, use home-ownership for general social, economic, and political purposes, with a useful effect in deconcentrating wealth in limited, but important, ways. Fifthly, do not be too perturbed if some orthodox (neo-classical) economists argue that housing is over-allocated by subsidy. Show them that "subsidy" is a concept which cannot be fitted easily to housing, and produce counter arguments, which are respectable in economics, and which are readily available. Sixthly, ensure an adequate supply of low-priced land in growing urban areas. Finally, conceive and operate housing policy and other social policies as an integral part of development. Then, for pride in nation-building and in operating a good housing policy framework, in quiet and modest ways let the international community know that this is the theory which is practised in Singapore and Norway, and scarcely anywhere else at all.

APPENDIX

TABLE 1

HDB DWELLINGS COMPLETED

1960	1,682	1972	20,252
1961	7,320	1973	23,224
1962	12,230	1974	26,169
1963	10,085	1975	28,027
1964	13,028	1976	30,024
1965	10,085	1977	30,406
1966	12,659	1978	30,176
1967	12,098	1979	27,189
1968	14,135	1980	18,311
1969	13,096	1981	12,576
1970	14,251	1982	18,648
1971	16,147		

SOURCES: HDB Annual Reports, and personal communication with the Department of Statistics, Singapore.

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TABLE 2

CAPITAL EXPENDITURE AND GOVERNMENT EXPENDITURE GRANTS TO THE HDB

Year	*Capital Expenditure*	*Government Expenditure Grant to HDB*
	$	$
1960 (11 Mths)	9,976,802	2,113,250
1961	30,182,549	2,101,004
1962	40,496,504	2,884,423
1963	50,594,708	4,373,677
1964	34,930,397	4,532,537
1965	31,392,010	2,142,046
1966	50,442,553	3,649,639
1967	59,353,604	755,664
1968	72,223,559	2,712,781
1969	71,897,593	10,349,130
1970	91,140,699	(1,536,339)
1971	136,372,280	9,852,611
1972/73 (15 Mths)	300,614,141	19,151,188
1973/74	377,926,261	28,293,592
1974/75	480,109,831	34,973,309
1975/76	625,161,799	44,481,365
1976/77	765,856,828	61,061,101
1977/78	813,917,663	68,524,108
1978/79	674,317,570	58,914,472
1979/80	791,592,758	32,886,395
1980/81	1,061,371,398	41,026,753
1981/82	1,580,547,201	6,540,576
1982/83	2,651,265,403	91,788,790

SOURCE: Personal communication with the HDB.

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TABLE 3a

WITHDRAWAL OF CPF SAVINGS UNDER THE APPROVED PUBLIC HOUSING SCHEMES, 1975–81

Year	*HDB (1)*	*JTC (2)*	*HUDC (3)*	*MINDEF (4)*	*ARPS (5)*	*Contributions Received (6)*	*Columns (1)–(5) as % of (6)*
	$	$	$	$	$	$	%
1975	115,462,215	14,111,902	5,241,893	—	—	886,606,933	15.2
1976	224,607,196	19,995,087	30,643,244	—	—	1,007,959,106	27.3
1977	330,025,392	28,363,056	21,158,810	3,923,826	—	1,114,688,472	34.4
1978	439,337,121	29,013,981	18,295,004	1,766,551	—	1,351,970,000	36.1
1979	383,672,270	18,886,176	34,815,407	1,212,627	—	1,753,118,412	25.0
1980	480,950,588	12,086,794	26,867,719	1,038,296	—	2,295,998,034	22.7
1981	511,377,773	23,031,975	116,238,810	1,311,239	39,094,016	3,007,168,546	23.3

Note: HDB = Housing and Development Board
JTC = Jurong Town Corporation
HUDC = Housing and Urban Development Corporation
MINDEF = Ministry of Defence
ARPS = Approved Residential Properties Scheme

SOURCE: Personal communication with the CPF.

TABLE 3b
APPROVED RESIDENTIAL PROPERTIES SCHEME, CPF,
FOR THE PERIOD 1 JUNE 1981–30 OCTOBER 1982

		Number of Applications Received	*Amount Applied For*	*Number of Cases Paid*	*Amount Paid To Nearest Million $*
From 1 June 1981–30 October 1982					
Phase I	(Full Redemption of Loan)	1,207	57.50m	1,118	56.24m
Phase I	(Partial Redemption of Loan)	2,884	518.41m	1,832	99.19m
		4,091	575.91m	2,950	155.43m
From 1 January 1982–30 October 1982					
Phase II	(Lump Sum Payment to Vendor)	168	19.52m	88	8.64m
Phase II	(Lump Sum Payment to Vendor and Repayment of Loan)	1,545	493.35m	843	74.76m
		1,713	512.87m	931	83.40m
	Grand Total	5,804	1,088.78m	3,881	238.83m

SOURCE: Personal communication with the CPF.

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TABLE 4
HOUSING STATISTICS AND THE ECONOMY, 1975–82

	Unit	*1975*	*1976*	*1977*	*1978*	*1979*	*1980*	*1981*	*1982*
Percentage contribution of residential construction to									
(a) GDP (at current market prices)	per cent	2.5	2.6	2.5	1.8	1.5	1.5	1.7	2.7
(b) Gross Capital Formation (at current market prices)	per cent	20.1	20.2	21.9	15.2	11.6	12.7	15.3	22.0
Employed persons in the construction industry[1]	thousand	39.2	42.0	42.0	51.5	54.3	72.3	66.4	72.0
Total completed dwellings	number	31,571	34,371	32,240	34,246	29,038	21,002	14,844	21,623
HDB and HUDC completed dwellings	number	29,053	31,966	30,267	30,875	26,638	18,311	12,576	18,648
Wholesale Price Index of Building Materials (1974 = 100)		91.1	93.8	94.7	99.0	111.1	127.7	136.0	130.4

[1] Labour Force Survey data, except 1980 which was based on the 1980 Census of Population.

SOURCE: Personal communication with the Department of Statistics, Singapore.

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TABLE 5

ESTIMATES OF POVERTY IN SINGAPORE, 1954 AND 1973

Year	*Households* %	*Persons* %
1954	19–21	25
1973	33–37	34–39

NOTE: The 1954 estimates are from Goh (1958) whose survey covered only city areas, and the 1973 estimates are from Cheah's own research (1977). Both studies had the problem of estimating total poverty levels from small samples and connecting them to other statistics which were available. In the mid-1970s, the OPEC (Organization of Petroleum Exporting Countries) inflation may have influenced the results in Cheah's research, with some poverty-causing inflation running ahead of increases in earnings in some occupations. However, the figures should lead us to some very sober reflection indeed. At the very least, we have every reason for advocating a major and substantial research programme into poverty and public policy in Singapore in the mid-1980s.

SOURCE: Cheah 1977, p. 41.

TABLE 6

WOMEN, EDUCATIONAL LEVEL, MARRIAGE, AND CHILD BEARING IN SINGAPORE

Educational Level (highest)	*Average Number of Children (live births)*	*Single Women, Aged over 30* %
No qualification	2.67	4.5
Primary	1.71	11.1
Secondary	1.16	18.4
Upper Secondary	1.22	16.8
Tertiary	1.10	17.8

NOTE: The figures for child-bearing need cautious interpretation. Although the price-cost of child-rearing has been increasing, so too have incomes, especially among the well educated. Hence, a statistic of fewer children does not necessarily reflect a lower demand for children. The quality of children can be enhanced by increased expenditure on child-rearing, reflecting an increased demand. Sociologically, it is the middle-class (educated) whose values and patterns gradually disperse and are diffused throughout society. As far as marriage-single ratios are concerned, this may reflect the economics of discrimination against women, and the better economic choice available to women who are well educated. These interpretations have implications for social and housing policies in Singapore. The implications go far beyond any simplified social policy attempt to get the well educated young women to marry and have children. It is more centrally a matter of: a) reviewing the relative economics of "domestic sector" and "firm sector" work, b) supporting the child-rearing work of women in general, with some roles for public policies, c) developing the sorts of dwellings which are more acceptable to women and which ease family living, and d) designing public policies which will enable intelligent (and other) children from all social origins to realize their potential for happiness, for life, and for their useful economic contributions. Finally, it should be recognized that in very private matters which have social consequences, young women like to be treated as individuals with personalities, not as the objects of grandiose policies. It is a question of love in every sense.

SOURCE: Census of Population for Singapore, 1980.

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NOTES

1. The PAP spokespersons and supporters have deliberated upon and justified the monopolization of power, the (virtual) one-party system, and the restrictions on some democratic freedoms (Goh 1972; Devan Nair 1976; *Sunday Nation*, 31 October 1982). Critical perspectives have been contributed by George (1973), and the authors of Amnesty International's annual reports and special reports on Singapore.
2. In a comparative study of some seven modern capitalist countries, using wide-ranging social and economic criteria, I found much to be commended in Norwegian housing policies (Pugh 1980).
3. The government view of welfare was expressed at the Council of Social Service (Singapore) seminar, "People, Services, and Development: Meeting Challenges and Setting Directions".
4. During the last decade or so, social policy specialists and social economists have engaged in sophisticated empirical and research studies to examine the relationships between economic growth, work, and saving incentives and other matters, within a framework of social assistance and social policy provisions. We should acknowledge that this research relates essentially to capitalist society, telling us nothing about incentive effects in socialist societies. The key findings run along the following lines: cash-support schemes for intact families scarcely affect work incentives and labour supply (Rees 1977). The analysis of the savings effects of state pensions and social security has led to controversial interpretation, but generally opinion shows that the disincentive effects are negligible (Munnell 1974; Lesnoy and Hamber 1975; Barro et al. 1979). Finally, the cross-national comparisons show no consistent relationship between the size of the welfare state and economic growth, though it is a popular belief that a larger size of welfare provisions leads to lower economic growth (Thurow 1981).
5. My personal experience with the HDB provides a good indication of how information is controlled. The HDB has found it difficult to decide how it could or should relate to my current research on Singaporean housing policies. In 1981 it had assisted with site visits, interviews with senior officers, and very good personal relations. But in 1983 it has politely limited communications to general public handouts and officialese. It suggested that I consult published sources. Most of the well-known published sources are either more unbalanced and critical than I would want to be, or they are aimed at description and endorsement of present policy. In a context where housing is politically sensitive and within the problems of intellectuals having access to information on public policy, the HDB has wished me well in my research.
6. What we need to understand is that outside HDB flats, in some squatter dwellings, the low-income groups get spatial provision similar to that of high-income groups. It is interesting to reflect on this during my daily jog through a neighbourhood where modern middle-class housing is rapidly encroaching upon good pre-modern housing. The dwellings of the rich have manicured lawns and ornate walls and gates, with two or three family cars in the grounds. In the squatter housing there is open area where ducks and chickens peck. We see cottage industries and school buses waiting for their next round of duty. The squatter residents make better social and economic use of outside cartilage space, and they are more convivial with European joggers who do silly things, like running in the heat of the day, through their neighbourhoods.
7. Ian Halkett has elaborated on the value which families place on garden space. Correspondents can obtain further information by writing to Ian Halkett, SA Housing Trust, Angas Street, Adelaide, Australia, 5000.

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Co-optation and Elite Accommodation in Malaysian Politics*

SIMON BARRACLOUGH

It has long been recognized that the process of élite accommodation has been crucial to Malaysia's communal and overall political stability. As the events of 1969 showed, a concerted attempt to undermine the position of the ruling trans-communal coalition threatened not only the primacy of the regime, but also overall communal and political stability. Without the adroit accommodation of most of the opposition parties which had challenged the regime at the 1969 general election — a process which gave rise to the Barisan Nasional (BN or National Front) — the reconstruction of the political system might never have been possible. The BN, representing a greatly expanded version of the original tripartite trans-communal Alliance which had ruled Malaysia since independence, is composed of several essentially communal political parties clustered around the undisputed leadership of the United Malays National Organization (UMNO).

In the case of the formation of the BN, the accommodation of opposition élites was achieved on a large scale through the device of formal coalitions. This process and its consequences for the overall political system has been the subject of academic investigation.[1] However, less is known of the accommodation of individual adversaries of the regime through the mechanism of co-optation and the significance of this process for Malaysian politics. Yet, as will be shown, co-optation has frequently been used by the ruling party to maintain its own primacy, to debilitate opposition parties, and to help defuse serious political challenges.

Co-optation involves the absorption into the regime of individual opponents in order to contain or eliminate both their motivation and capacity to oppose. Such absorption is usually brought about by both persuasion and the judicious use of inducements — commonly in the form of an offer of a position at some level of actual or symbolic leadership or participation in the regime.[2] Such absorption may be used as a means, not only of terminating the opposition of particular individuals, but also of exercising control over them as they are socialized into the values of the regime and grow accustomed to the fruits of their membership of the ruling group.

The strategy of co-optation has several characteristics. Attempts are made to persuade opponents, by means of a variety of arguments, to desist from their opposition and to support the regime. Such persuasion will usually be reinforced with the offer of rewards or inducements and, in certain circumstances, by threats to remove existing privileges and benefits enjoyed by an opponent. Finally, the

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regime will be willing to make certain concessions in order to win over an opponent.

In seeking to persuade its opponents, the Malaysian regime has persistently stressed the imperatives of national unity. While acknowledging the legitimacy of political participation by the various elements of Malaysia's plural society, the regime maintains that such participation can only be effective and constructive when conducted within an UMNO-led, multi-ethnic structure, composed of a variety of communally-based parties. Such a structure is based upon an acknowledgement of Malay political primacy mirrored in UMNO's unquestioned position of dominance. Moreoever, there is an overriding emphasis upon the consequences of disturbing the delicate racial equilibrium. The May 13 Incident is frequently invoked to demonstrate the terrible consequences of challenging the established political structure.

As a highly pragmatic entity, unencumbered with commitments to a rigid ideology, the Alliance (and later the BN) has projected itself as the only structure capable of ruling a society as ethnically divided as Malaysia's. The ethos of a BN allows a twofold appeal for unity. Not only must the various communal groups work together in the interest of national unity, but each communal component must strive for unity within its own community, in order to safeguard its relative position within the overall structure. Hence, the inter-communal rationale is extended to an appeal for intra-communal unity.

Closely related to the national unity argument is an appeal for political consensus in the interest of national development. It is frequently argued that the talents and energies of the regime's opponents would better serve the national interest if they were supportive of the government rather than wasted in opposition.

A further appeal for support is based upon the imperatives of national security. According to this argument, the nation cannot afford internal political dissension in the face of both domestic communist insurgency and the threat of possible external aggression. This approach frequently concedes the sincerity of opposition intentions, but maintains that any activities which draw attention to problems and weaknesses within the country or denigrate the government may assist subversive elements.

Appeals are also made to supposed common cultural values such as *gotong royong* (co-operation), *muafakat* (consensus), and *mesyuarat* (discussion), which are said to typify the consensual style of Malay (and also Malaysian) society. As one Chinese Federal Minister put it:

> The only answer lies in *mesyuarat*. Chinese and Indian political leaders must sit down with their Malay counterparts and talk, talk, talk. Since all of them have one common denominator — they are all Malaysians — they should be able to see each other's viewpoints and defuse the time bombs.[3]

In the years immediately following the May 13 Incident, appeals were also made to

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the spirit of the newly-formulated national ideology, the *Rukunegara*.

On the psychological level, much is made of the futility of opposition and dissent. Opponents are invited to employ their talents within the regime, where they will be both recognized and effective. To activists who have spent long periods in opposition with little hope of ever succeeding to positions of power, feelings of futility can prove a compelling reason for re-thinking their position.

The frequent internal splits of opposition parties also provide fertile ground for persuasion. Many an opposition figure has responded to the sympathetic overtures of the ruling party in the wake of bitter intra-party feuding.

A variety of rewards and inducements is used to win over opponents. Broadly speaking, such inducements are offered at two levels — the élite or leadership level, which includes Members of Parliament (MP), Assemblymen, party power-brokers, party functionaries, and community and religious leaders; and the rank-and-file level composed of the ordinary membership and supporters of an organization. In many instances, especially in rural areas, the co-optation of a particular leader will often also yield a significant number of his supporters as recruits for the ruling party.

At the higher leadership level, inducements often involve appointments to executive positions at some level of government, or within the structure of the ruling party. The regime can make available positions on local councils, boards of management, committees, and semi-government authorities. Appointment to such positions not only flatters the defector, but may also enhance his social status by affording him access to sources of minor patronage.

In some cases, inducements are of a more tangible form. The BN's principal Chinese component, the Malaysian Chinese Association (MCA), has frequently been accused of financing "pay-offs" to secure defections. UMNO, for its part, has been accused of using inducements such as timber concessions, licences, low-cost housing, fertilizer subsidies, scholarships, and livestock grants to reward its supporters. The witholding of such benefits may serve both to punish intransigent opponents and induce defections.[4] On occasions, inducements may not actually result in a defection, but may remove an opponent from the political arena, or even compromise his credentials as an active opponent of the regime.[5]

An effective inducement for MPs and Assemblymen has been the promise of development funds for their constituencies. Only representatives of the ruling party are entitled to a standard M$100,000 constituency grant for minor projects. The defection of an opposition legislator to the ruling party immediately yields this grant and usually also stimulates other grants for specific projects.[6]

Co-optation: Costs and Benefits

As a strategy, co-optation is appealing for a number of reasons. It is essentially positive, largely non-coercive, and stresses consensus. It may also enhance the regime's own political resources by adding an influential individual and his supporters to the ranks of the ruling party. The use of such a strategy is also desirable

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in that it further strengthens the élite basis of the political system, accommodating elements from the counter-élite, encouraging élite stability, and allowing an opponent to be neutralized by essentially private intra-élite negotiations, rather than by potentially hazardous public contestation.

Finally, such a strategy usually has a demoralizing effect upon an opposition or dissident group. Loyalties may be revoked, friendships severed, valuable inside intelligence made available to the regime by defectors, and a sense of insecurity created as allies waver and leaders succumb to the lure of a place in the regime.

Yet, co-optation also involves risks and costs, since it often necessitates the re-allocation of scarce resources, or a commitment to values which might be unpalatable to certain elements within the regime. For example, the accommodation of former foes might be viewed by some sections of the regime as involving a loss of face and a diminution of their own influence, while others might resent the transfer of resources, such as development grants, to former opponents.

There is also always the risk that the efforts taken to absorb an individual opponent will yield few benefits for the regime. In certain cases defections may mean a drastic loss of electoral support for the individual concerned. Finally, care must be taken that the absorption of an opponent will not afford him an unacceptable degree of influence within the regime. The aim of co-optation is to exercise control over an opponent in order to eventually neutralize him, and not to provide him with an opportunity to continue opposition from within the regime.

The Strategy of Co-optation: Three Cases Considered

Three case studies have been chosen to illustrate the use of the co-optation strategy against a variety of opponents. The first shows how the strategy was used to maintain the primacy of the ruling party when it was threatened by opposition electoral successes. The second demonstrates the impact of the strategy upon one of Malaysia's principal opposition parties. The final case relates to the use of the strategy against one of the principal leaders of Islamic-based dissent.

Co-optation and the Maintenance of Regime Supremacy. Co-optation is by no means a recent strategy in Malaysian politics. In 1961 the Alliance had recaptured Trengganu from the Pan-Malayan Islamic Party (the original name of Parti Islam Se Malaysia or PAS), when four Assemblymen from Party Negara and two from PAS were induced to defect.[7]

PAS, UMNO's principal Malay rival, had held the state since 1959. A similar attempt to capture Kelantan from PAS in 1968 narrowly failed when a number of co-opted Assemblymen reneged and supported the incumbent *Menteri Besar*.[8]

Following the 1969 general election, co-optation enabled the Alliance to retain control in a number of areas where it had suffered serious reverses. It had lost its two-thirds majority in the Federal Parliament and hence its control over

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constitutional amendments. It had similarly lost its two-thirds majority in Trengganu, had been defeated outright in Penang, and was unable to form a majority government in the states of Perak and Selangor.[9]

The emergency National Operations Council (NOC) rule imposed in the wake of the May 13 riots and the suspension of parliamentary rule throughout Malaysia, meant that for a time at least, the problem of forming Alliance majority governments in these states could be postponed. Nevertheless, given the communal sensitivity over the threatened position of the Alliance in these states, and the desire of the regime to maintain its constitutional legitimacy, a solution would have to be found if there was to be a return to political normalcy.

One of the prerequisites for the return to parliamentary rule imposed by the Director of the NOC, Tun Razak, was that the Constitution be amended to proscribe a number of communally sensitive issues from public discussion. When the Alliance failed to gain a two-thirds majority in Parliament, even after the postponed East Malaysian elections, it became obvious that any constitutional amendments would depend, to some degree, upon opposition support. The government made it clear that unless such support was forthcoming, NOC rule would be continued indefinitely.

The problem of mustering sufficient numbers to ensure a two-thirds majority was ultimately solved by co-optation. Following negotiations between the Sarawak Alliance, the Sarawak United People's Party (SUPP), and Parti Pesaka, a state-level coalition was formed in Sarawak.[10] Initial confusion over the ramifications of SUPP's participation in this coalition for Federal level politics was dispelled by the unprecended inclusion of a non-Alliance leader in the Federal Cabinet. SUPP leader, Ong Kee Sui, became a Minister without Portfolio, was appointed to the United Nations as Malaysia's representative, and was subsequently created a *Datuk* (an honorific title).

Although no formal coalition existed with the SUPP at the Federal level, Ong's co-optation yielded pledges of support for Alliance national policies by SUPP's five MPs. Despite this support the Alliance was still short of a two-thirds majority. In August 1970, Sarawak renegade, Joseph Untung, an independent member, was persuaded to rejoin the Alliance. Three months later, T.S. Gabriel of the Gerakan Rakyat Malaysia (GRM), which had displaced the Alliance in Penang, defected. With an increased parliamentary strength and a pledge of support from PAS, Parliament was reconvened and the Constitution (Amendment) Bill 1971 comfortably passed.

The problems of an Alliance majority in Perak and Selangor and of a two-thirds majority in Trengganu were also solved by co-optation. In Perak, Samsuddin bin Harun, the Vice-President of the People's Progressive Party (PPP), and his colleague Thean Moi Tuck, as well as Yeoh Eng Chai of the Democratic Action Party (DAP), defected. In Selangor, Chou Yew Koh of the GRM and independent member, Lim Tuan Siong, crossed to the Alliance. Lim received a seat on the State Executive Council, as well as a pledge that public works in his constituency would be expedited.[11] The following year, the Alliance regained

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its control over the Trengganu Constitution when two PAS Assemblymen, Wan Mohamed bin Wan Ngah and Haji Mohamed Taib bin Haji Ismail, defected.[12]

Co-optation and the DAP: A Strategy of Attrition. The DAP is Malaysia's principal non-Malay opposition party. Since its registration in 1966 it has vociferously championed the non-Malay position and has continued to demand for a "Malaysian Malaysia". In addition, it has played a general "watchdog" role in such areas as human rights and the administrative efficiency of the government.

Defections have posed a major problem for the DAP, which perceives the BN as constantly seeking to undermine it through such tactics as "buying over" its elected representatives and party functionaries, as well as infiltrating the party with *agents provocateurs*. According to the DAP leaders, inducements offered have included cash, shares in Multi-Purpose Holdings (the MCA's financial arm), land grants, executive positions within the ruling party, and appointments to local councils.[13]

Despite such accusations, it must be observed that the DAP has suffered from serious factionalism ever since its formation. At least two splinter parties were born of internal splits. In 1978, Penang DAP leader Yeap Ghim Guan led his faction out of the party and formed the Socialist Democratic Party. In the same year, Mrs Ganga Nair quit the DAP to establish the Partai Pekerja (Workers' Party). Undoubtedly, a number of DAP leaders and ordinary members have defected to the BN in the heat of internal conflict. Most expelled DAP leaders have tended to join the BN almost immediately. However, we are not concerned here with motives, but rather with an investigation of the regime's strategy in co-opting its opponents. In this context, there is ample evidence of the ruling party's consistent attempts to bring about defections from the DAP. The effectiveness of these attempts is revealed by an examination of Table 1, which chronicles the steady flow of DAP legislators to the ruling party.

The impact of this strategy is further borne out by the DAP's attempts to safeguard itself against defections. Under Clause 12 (c) of the DAP Constitution, MPs and Assemblymen are required to vacate their seats if they cease to be members of the party for any reason. In addition, all DAP candidates must sign a bond promising to repay M$15,000 in election costs if they cease to be members of the party. In a test case, the DAP sued two Assemblymen, who had defected, for breach of contract. Although the court found in the DAP's favour, it awarded only M$10 costs in each case.[14] Symptomatic of the frustration of the party over its vulnerability was its gesture in unsuccessfully seeking to introduce the Members of Parliament (Prevention of Defections Bill) 1978 into the *Dewan Rakyat* (Parliament).[15]

Co-optation has not been restricted merely to higher echelons of the DAP. In the periods preceding general elections, the ruling party steps up its efforts to co-opt party functionaries and candidates. In 1974, for example, two Malay and one Chinese State Assembly candidates defected, as well as the entire membership of a number of local branches in several states.[16] In 1978, two Malay DAP

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TABLE 1
DEFECTIONS OF DEMOCRATIC ACTION PARTY STATE ASSEMBLYMEN AND MEMBERS OF PARLIAMENT 1971–81

January 1972	Chin Chan Sung	Negeri Sembilan Assemblyman
February 1972	Lee Peng Cheang	Selangor Assemblymen
May 1972	Khong Chai Huat	Malacca Assemblyman
May 1972	Ho Mong Yew	Malacca Assemblyman
May 1972	Richard Ho	MP for Setiawan
May 1972	Walter Lo	MP for Setepak
June 1972	Goh Hock Guan	MP for Bangsar Selangor Assemblyman
December 1972	Felix Anthony	Perak Assemblyman
May 1973	Lim Thian Keng	Selangor Assemblyman
July 1974	Yap Pin Hon	Selangor Assemblyman
May 1976	Ng Swee Ching	Penang Assemblyman
May 1976	Oh Teck Aun	Penang Assemblyman
May 1976	Chan Heng Woh	Perak Assemblyman
June 1978	Daing Ibrahim	Perak Assemblyman
March 1981	Lim Eng Chuan	Perak Assemblyman
March 1981	Ooi Ean Kwong	Penang Assemblyman
March 1981	Seow Hun Khim	MP for Bukit Mertajam
March 1981	Chin Nyok Soo	Penang Assemblyman
May 1981	Thee Ah Kow	Perak Assemblyman
May 1981	Young Heow Choo	Perak Assemblyman
May 1981	Chan Teck Chan	MP for Tranquerah Malacca Assemblyman

SOURCE: Compiled from information provided by DAP interviewees and press reports.

candidates for the Perak Assembly announced their intention to support the BN and one of the party's few Malay national leaders, Daing Ibrahim, resigned and subsequently joined UMNO.[17] During the 1982 campaign, the pattern was repeated. Perak DAP Vice-Chairman and incumbent Assemblyman for Guntong, Mohamad Salleh bin Nakhoda Itam, defected to UMNO, as did a number of Malays in party posts in other states.[18]

The Co-optation of Leaders of Dissent: The Case of Anwar Ibrahim. Anwar Ibrahim came from an élite family. The son of a former UMNO MP and Parliamentary Secretary, he had been educated at the prestigious Malay College at Kuala Kangsar. At the University of Malaya, he had been President of the Malay Language Society and the National Islamic Students Society of Malaysia and had played a prominent role in the anti-Tunku demonstrations in 1969 and 1970. In 1970 he was among the group of Malay graduates which founded the Angkatan

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Belia Islam Malaysia (Muslim Youth Movement of Malaysia, commonly known as ABIM). ABIM came into political prominence in 1974 when Anwar Ibrahim, its newly-elected President, was detained under the Internal Security Act for his part in the Baling peasant demonstrations, organized to draw attention to the plight of impoverished Kedah smallholders. The government accused Anwar Ibrahim of manipulating student demonstrations over the issue and endangering national security. In addition, he was accused of having previously caused communal unrest through his championing of the rapid introduction of *Bahasa Malaysia* as the national language and of having incited a number of student demonstrations.[19]

Released after twenty-two months of detention, Anwar Ibrahim continued to build up ABIM's organizational capacity and influence. UMNO leaders continued to be disturbed by ABIM's growing impact and such incidents as the Day of Solidarity with the Iranian Revolution held by ABIM on 11 March 1979. By the late 1970s it had become clear that ABIM was playing an important role in the revival of Islam in Malaysia and was a potent force among Malay youth.

UMNO had good reason for apprehension. ABIM, in marked contrast to UMNO Youth, was proving to be more attractive to a number of Malay intellectuals and attracting the sympathy of many younger Malay civil servants. In 1980 it claimed to have "40,000 actual members and many thousands of sympathizers".[20]

Although Anwar Ibrahim had avoided a formal orientation towards any particular political party, a number of ABIM leaders had angered UMNO by their open support for PAS. For some time it was feared that Anwar Ibrahim might even seek to found a new Islamic political party and might attract sympathetic elements within PAS and UMNO.

From a regime perspective, Anwar Ibrahim's personal popularity, organizational talent, and contacts with influential overseas Islamic figures rendered him a leader with dangerous political potential if left unchecked. On a number of occasions, attempts had been made to co-opt Anwar. Following his release from detention for participating in the 1974 protests over rural poverty, he was offered a Cabinet post by the late Tun Abdul Razak, and was later offered a number of lucrative government positions, including one as Food and Agricultural Organization representative at the United Nations. Although Anwar continued to maintain close contacts with a number of prominent figures in the government, he refused such overtures and continued his activities as leader of ABIM.

However, in March 1982, after extensive discussions with UMNO leaders and the new Prime Minister, Datuk Sri Dr Mahathir bin Mohamad, Anwar announced his decision to resign as President of ABIM and seek election on the BN ticket. The fact that Anwar had not been an active member of UMNO and was therefore ineligible for selection as a candidate was overlooked, and his family's UMNO membership was deemed to have covered him. Stressing that his personal friendship with the Prime Minister had been instrumental in his decision, and denying that he had discussed specific terms for entering UMNO, Anwar Ibrahim

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asserted that policy changes in the Mahathir government had convinced him to support the BN and the Prime Minister.[21]

Anwar Ibrahim's reputation as an Islamic activist was fully utilized by UMNO, which fielded him as a candidate in the only PAS-held seat in Penang, where he won comfortably. In the Cabinet reshuffle following the 1982 general election, Anwar was appointed as Deputy-Minister in the Prime Minister's Department and was singled out by Datuk Seri Dr Mahathir bin Mohamad for a prominent future role in the government. Indeed, Anwar was subsequently elected President of UMNO Youth and appointed to a full ministerial post.

The co-optation of Anwar Ibrahim displayed most of the usual characteristics of the strategy — considerable persuasion, concessions to the opponent's values and principles, recognition of his status, and a substantial inducement in terms of immediate entry into the Cabinet.

Conclusion

The manner in which co-optation has been used by the regime reveals a marked readiness to forgive past political wrongs in the interests of bolstering élite stability. A number of the regime's harshest critics have thus found places in the ranks of the ruling party. Indeed, the BN is apparently open to any opponents who wish to cross over — even those who had previously been accused of subversion and dangerous communal politicking. For example, Ibrahim Ali, the principal leader of the 1974 student mass demonstrations and an ex-detainee under the Internal Security Act is now an active member of UMNO, while Lim Kean Siew, a former leader of the radical Labour Party of Malaya, has twice been endorsed as MCA candidate for the Penang State Assembly.

The important role of co-optation as an accommodative strategy in Malaysian politics is borne out by the three cases studied. The widespread co-optation of opposition MPs and Assemblymen in the months following the breakdown of parliamentary rule in 1969 enabled the regime's leadership to remain within the bounds of constitutionality in the task of restructuring the political system in order to reduce the saliency of communal issues and bolster its political primacy. At the same time, at very little cost, it succeeded in reversing its electoral losses in Perak and Selangor and strengthening its position in Trengganu.

Co-optation has proved to be a most effective strategy against the DAP, not only depleting its representation in legislatures, but also exacerbating its difficulties in fielding Malay candidates and thereby projecting a less communally-narrow image. In addition, both party morale and organizational effectiveness have been adversely affected, while the ruling party has made much of the defections through extensive coverage in the press.

Anwar Ibrahim's absorption into the regime was a *tour de force* for Datuk Sri Dr Mahathir bin Mohamad. While some of the lower-echelon UMNO leaders would have been far from happy with Anwar Ibrahim's rapid promotion, the top UMNO leadership would have been relieved at the removal of one of the most

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potentially dangerous of the regime's critics. Moreover, Anwar Ibrahim's co-optation does not appear to have resulted in any serious loss of popularity among his previous supporters. He was returned with a healthy majority in his parliamentary constituency and comfortably won office as President of UMNO Youth. Without his leadership, ABIM poses nowhere near the same challenge to UMNO as it did in the past decade.

From the evidence of the case studies it would appear that the strategy of co-optation is an established element of the Malaysian political style and a device which has consistently enabled the regime to bolster its political position without recourse to dangerous or costly public contestation. The apparent ease with which the strategy has been employed also underscores the susceptibility of many of the leaders of opposition and dissent to the symbolic and material rewards offered by participation in the ranks of the regime.

NOTES AND REFERENCES

* Material for this article was gathered during field-work in Malaysia in 1980 and 1981. The author wishes to thank Malaysians from all political parties, as well as from other organisations, for consenting to be interviewed. Unless otherwise indicated, the opinions expressed in this article are the sole responsibility of the author.

1. See Diane K. Mauzy, *Barisan Nasional: Coalition Government in Malaysia* (Kuala Lumpur: Marican, 1983).
2. The strategy of co-optation is not, of course, restricted to external opponents of the regime. It may be used by the leadership of any organization to modify the challenge of elements perceived as threatening. In 1980, for example, UMNO Youth President Haji Suhaimi bin Kamaruddin announced that his organization had modified its "pressure group" approach to the government after several of its Executive Council members had been created Deputy-Ministers; *Star*, 21 November 1980. For a useful discussion of co-optation as a management strategy in a bureaucratic setting, see Philip Selznick, "Co-optation: A Mechanism for Organizational Stability", in *Reader in Bureaucracy*, edited by R.K. Merton et al. (New York: The Free Press, 1952), pp. 135–37.
3. Goh Cheng Teik, *Integration and a Plural Society: The Chinese in Malaysia* (Straits Echo Press, 1978), p. 34.
4. In field-work interviews with PAS officials, such accusations were repeatedly made. A number of UMNO MPs from Trengganu admitted that such tactics were employed by their party in order to counter the PAS challenge in their constituencies; interview with Alias Ali and Awang Jabar, at Parliament House, Kuala Lumpur, March 1981.
5. For example, in 1969 Ahmad Boestamam, shortly after his release from detention for his radical opposition to the regime, was given a government scholarship to study law in London. Having discontinued his studies, he returned to Malaysia and accepted a post as speech-writer to the Chief Minister of Sarawak, Datuk Hj. Abdul Rahman Yaacob. At the same time, Boestamam continued to serve as President of the opposition Partai Marhaen; interview with Datuk Ahmad Boestamam, Kuala Lumpur, February 1980.
6. For example, Chan Teck Chan's formal entry into the BN in May 1981 was marked by grants totalling M$470,000 for minor works and subsidies for Chinese schools in his Kota Melaka state constituency. He was also appointed to the Central Committee of the MCA; *New Straits Times*, 25 May 1981.
7. Gordon Means, *Malaysian Politics* (London: London University Press, 1970), p. 232.

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8. Roger Kershaw, "The 'East Coast' in Malayan Politics: Episodes of Resistance and Integration in Kelantan and Trengganu", *Modern Asian Studies* 11, no.4 (1977): 524.
9. In Selangor, the Alliance held fourteen seats, the opposition parties thirteen, and an independent one. In Perak, the opposition parties held twenty-one seats to the Alliance's nineteen.
10. For details of these negotiations, see R.S. Milne and K.J. Ratnam, *Malaysia: New States in a New Nation — Political Development of Sarawak and Sabah in Malaysia* (London: Frank Cass, 1974), pp. 236–40.
11. *Straits Times* (Malaysia), 11 December, 28 December 1970.
12. *Straits Times* (Malaysia), 29 June 1971.
13. In 1972, Lim Kit Siang publicly claimed that Dr Soorian had been offered land in a foreign country, while Walter Lo had been promised a Cabinet post, if they would defect. See *Sunday Times* (Singapore), 6 February 1972. In interviews with DAP leaders, numerous accusations were made against the BN. DAP Rural Bureau Director Fadzlan bin Haji Yahaya claimed that prior to the 1978 general election a number of the party's Malay candidates had received substantial cash payments to induce them to change their allegiance to UMNO; interview, Petaling Jaya, March 1980. According to P. Patto, a number of DAP activists in Perak were induced to defy the DAP boycott on serving on local councils when they were offered seats on such councils. Those DAP members accepting council positions were automatically expelled from the party and later joined the BN; interview, Petaling Jaya, January 1980. Nor were such accusations restricted to opposition parties. In 1981 GRM President Lim Keng Yaik revealed the existence of tape recordings and documents allegedly showing that the MCA was actively buying over GRM members. A photostat of one of the alleged payment cheques was subsequently published in the press; see *New Straits Times*, 13 July 1981.
14. *New Sunday Times*, 26 July 1981.
15. In 1971 the party had called for similar legislation. See *Straits Times* (Malaysia), 27 July 1971. There is similar legislation obliging defectors to resign and re-contest their seats in Singapore.
16. For details of these defections, see the editorial comment of *Straits Times* (Malaysia), 22 August 1974.
17. *Star*, 28 June 1978.
18. *Star*, 5 April 1982. An examination of the *New Straits Times* in the fortnight preceding polling day reveals the defection of 330 rank-and-file DAP members and 14 branch officials. PAS, too, suffered from substantial numbers of defections. If UMNO's claims are to be believed, a total of 2,523 members and 55 branch officials defected during this period.
19. *Allegation of Fact: Statement Under Section 11 (2) (b) of the Internal Security Act 1960*. Copy in the possession of the present author.
20. *Kebangkitan Islam di Malaysia: Peranan ABIM*, Biro Penerangan ABIM Pusat, Kuala Lumpur.
21. Interview of Anwar Ibrahim by Dr Tan Chee Khoon, published in *Star*, 30 March 1982.

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Recent Tax Changes in ASEAN and their Implications*

MUKUL G. ASHER

Introduction

The period since 1980 has witnessed both significant and unusually frequent changes in the fiscal systems in general, and tax systems in particular, of the countries belonging to the Association of Southeast Asian Nations (ASEAN).[1] Moreover, several ASEAN countries such as Thailand, Malaysia, and the Philippines currently appear to be making an intensive re-examination of their fiscal systems, including the tax systems. Indonesia is in the midst of implementing a major tax reform programme in the areas of income tax, sales tax, and tax administration.

Both external and internal factors have contributed to varying degrees to the need for changes in the fiscal systems of the ASEAN countries. Given the outward-orientation and the dependence of the ASEAN economies on international economic relations, developments in the world economy are likely to require adjustments in the economic policies and the fiscal systems of these countries. Among the major developments in the world economy over the past few years have been the persistence of slow economic growth in the OECD (Organization for Economic Co-operation and Development) countries to which grouping almost all the major industrial countries of the world belong.[2] While the recent rapid growth rates of the U.S. economy have temporarily reduced somewhat the importance of this development, relatively low growth rates of the OECD countries have affected both the investment and trade flows and prospects of the ASEAN countries. The second major development has been the severity of the external debt crisis. This has been considerably exacerbated by the nationalistic economic policies followed by the United States in recent years. Two major manifestations of these policies have been persistently high real interest rates, the significance of which is now considerably greater as a result of the variable interest rates charged to the borrowers, and the increased importance attached to ideological, political, and security considerations of the United States, and to the narrow financial criteria to determine both the conditions and the levels of resource flows to the developing countries from the international economic institutions such as the World Bank, the International Monetary Fund (IMF), and even the regional development banks in which the United States and its allies have predominant leverage.[3]

An additional external factor has been the decline in the price of oil as

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compared to the price immediately after the second oil shock of 1979.[4] This factor, however, has had a favourable effect on Thailand and the Philippines. Since Indonesia, Brunei, and to some extent Malaysia are dependent to varying extents on oil-revenue, stabilization or a reduction in the price of oil would require fiscal adjustments in the countries. Singapore's position is more ambiguous because it is both a large exporter and importer of petroleum products.

Many internal factors have also contributed to the need for adjustments in the fiscal systems of the ASEAN countries. These include the desire to restructure their economies; the effects of political developments in countries such as the Philippines on economic variables; problems relating to the financial systems; and problems relating to the performance and management of public enterprises and off-budget agencies. The ASEAN countries are also attempting to enhance the role of the private sector in the process of economic growth.

In analysing recent fiscal and other changes in the economic policies of the individual ASEAN countries, close and on the whole co-operative relationship of these countries with the World Bank and the IMF needs to be taken into account. At present, this need is particularly evident in the case of the Philippines whose external debt crisis and other economic problems have made it imperative to reach agreement with the IMF concerning the economic management of the country.[5] It appears that there is little divergence between the views of the technocrats managing the Philippine economy and the IMF and the World Bank concerning the appropriate measures, although there do seem to be non-government economists who advocate a different strategy.[6] Thailand and Indonesia have separately agreed with the World Bank for reforms to be carried out in various areas. In both cases, fiscal policy has been included as one such area.

The effects of the external and internal factors mentioned above have been particularly evident in various macro-economic indicators such as current account and overall deficit in the government budget; the size and composition of the external and the internal debt; and the balance of trade and the balance of payments. While detailed analysis of the behaviour of these indicators is beyond the scope of this paper, it should be noted that in recent years, the movements in these indicators have been sufficiently adverse in all the ASEAN countries, with the exceptions of Brunei and Singapore, to require policy adjustments. These adjustments have included fiscal policy in general, and the tax system in particular.

This paper attempts to analyse various implications of the recent changes in taxation in the ASEAN countries. While the primary focus of the paper will be on the tax changes, related fiscal developments such as changes in pricing policies of public enterprises, changes in the subsidy provisions of certain key consumer items and inputs, etc., will be discussed whenever appropriate. It is organized as follows. While this section has provided the background and the introduction, the next section summarizes recent tax changes in the ASEAN countries. Various economic and other implications of these changes are analysed in the third section, while the last section provides the concluding observations.

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A Summary of Recent Tax Changes

The tax system of a country consists of myriad formal and informal rules and regulations, and laws. Since these are subject to constant changes, it is impossible to summarize all of them. Therefore, only the more significant recent changes in the tax systems are summarized here. It may be stressed that the summary is intended to aid in analysing implications of the recent changes which are discussed in the next section.

INDONESIA

Among the ASEAN countries, the most far-reaching tax changes in recent years have occurred in Indonesia. Three new laws — on personal and corporate income tax, sales tax, and tax procedures — were passed by the Indonesian Parliament in December 1983.[7] While the laws concerning income tax and tax procedures went into effect on 1 January 1984, the intended implementation date of 1 July 1984 for the sales tax has been postponed to April 1985. Among the major objectives of the above tax changes is the improvement in the non-tax revenue to GDP (gross domestic product) ratio to enable Indonesia to face the post-oil era with greater confidence.

Personal and Corporate Income Tax. Under the old system, the personal income tax ranged from 5 to 50 per cent, with a special rate of 10 per cent for income derived from lease, house-rents, capital gains, and profits from the sale or liquidation of a company. The basic exemption in 1983 was Rp 240,000 for a taxpayer and a spouse, while the exemption per child was Rp 120,000 for a maximum of five children. Thus, a family of four received an exemption of Rp 720,000. Since passive incomes, such as those derived from dividends, capital gains, royalties, and interest, were treated differently from wages and rentals, the old Indonesian personal income tax system may be regarded as schedular in nature.

Under the old system also, corporate income tax rates were nominally progressive, varying between 20 and 45 per cent.[8] However, the amount of taxable profits, which is the base of corporate income tax, varied according to whether the corporation had its accounts audited, the degree to which its shares were sold to the public, and so forth. Moreover, companies were given numerous fiscal incentives. The system of depreciation consisted of many different rates. Each depreciating asset was considered separately (Mansury 1984, p. 187).

Under the new system, personal income tax has been changed from being schedular to a global system. Under this system, all types of income are consolidated. The basic exemption is Rp 960,000 per individual taxpayer, with an additional Rp 480,000 for a married taxpayer, an additional Rp 960,000 for a wife who has income from business or professional work, and an additional Rp 480,000 per child for a maximum of three children. This basic tax structure exempts

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approximately 90 per cent of the population from tax liability (Mansury 1984, p. 188). The rates for personal and corporate income tax have now been made identical. There are only three rates: 15 per cent, 25 per cent, and 35 per cent. Thus, for both individuals and corporations, the highest marginal rates have been reduced.

The depreciation system has also been changed. The assets are now grouped under four classes. Each class of asset has a corresponding depreciation rate of 5 per cent, 10 per cent, 25 per cent, or 50 per cent. Under the new law, all tax incentives have been abolished. The value of fringe benefits, instead of being imputed to the income of the employee as in the old system, is now disallowed to the employer.

As a result of the above changes, the base has been considerably broadened, while the rates have been lowered. The hope is that this would increase compliance sufficiently to bring about greater revenue even at lower nominal rates. The realization of the objective of increasing revenue would also depend on the extent to which tax authorities succeed in keeping the expanded base of the income tax intact and in enforcing penalties for non-compliance.

The Sales Tax. At present, Indonesia levies sales tax at the manufacturer-importer level. It also levies sales tax on services, and an excise tax on tobacco and alcoholic products, and other minor items.[9] The rate of tax on domestically produced goods varies from 1.0 per cent for essential needs to 20.0 per cent for luxuries. For services, the rate is 2.5 per cent. There are substantial deviations between the import and domestic sales tax rates, with the former being higher in almost all cases (Asher and Booth 1983, p. 23).

The proposed sales tax law consists of value-added tax (VAT), and a sales tax on luxury goods. The VAT is to be applied to the manufacturer, importer, a provider of service by a contractor, or a sub-contractor. It is to be levied on the basis of the destination principle. Therefore, exports are zero-rated.[10] The VAT is to be levied at a single rate of 10 per cent, although in certain cases zero-rate applies. The domestic and imported goods are to receive the same treatment under the VAT. The capital goods, unlike at present, are to be exempted from the sales tax. VAT will also be applicable to petroleum products.

The sales tax on luxury goods is to be levied once on the sale price by the manufacturer or by the importer on the import value of the goods. Two rates, 10 per cent and 20 per cent, would be applicable. Luxury goods subject to the sales tax are also subject to the VAT. This suggests that the delivery or import of luxury goods is subject to the VAT initially, and the sales tax on luxury goods additionally. Exports of luxury goods are, however, zero-rated.

Under the proposed sales tax, small firms are specifically exempted. Small firms are defined as those with a turnover of less than Rp 24 million per year, or a capital of less than Rp 10 million. The law concerning tax procedures is intended to simplify and rationalize tax procedures and thereby minimize administrative and compliance costs.

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Along with the above changes in the tax system, in recent years there have also been sharp increases in excise taxes on alcoholic products; reductions in subsidies provided for kerosene and other subsidized oil products; increases in domestic oil prices in 1982 and 1983; and increases in bus-fares and other administered prices.[11] There have also been moves to de-regulate many areas of the economy, as well as efforts to link payment of taxes and user charges with the benefits of various government expenditures resulting from such revenue. Indonesia has also levied an exit tax to discourage foreign travel.

MALAYSIA

In response to the second oil shock of 1979 and subsequent recession in the industrial countries, Malaysia adopted an expansionist fiscal policy. One consequence of this policy was the sharp increase in internal and external debt, and high budget deficits.[12] As a result, since early to mid-1982, the government's fiscal stance has turned decidely conservative.[13]

The major tax changes which have occurred since the 1980 Budget may be summarized as follows.

Personal and Corporate Income Tax. Before the 1982 Budget, there were no changes in the nominal rates of either of these two taxes. However, certain adjustments in the base of the tax structure were made. Major base changes in personal income tax structure included increases in personal reliefs; doubling of the allowances for children educated abroad to four times the normal children's relief; and revision of the top chargeable bracket. The range of marginal tax rates remained constant from 6 per cent to 55 per cent. All the above changes were announced during the 1980 Budget Speech. Since then only minor reliefs, such as exemptions of interest on savings and fixed deposits to encourage saving, were provided until the 1985 Budget.

The personal income tax rates have been drastically reduced in the 1985 Budget, while some of the income brackets have been widened. Instead of the range of 6 to 55 per cent, the new range of personal income tax is from 5 to 40 per cent. Moreover, this reduction in rates has not been accompanied by expansion of the tax base, that is, previous base reductions have not been repealed. Tax reliefs for children have also been increased in the 1985 budget. In line with Malaysia's goal of achieving a population of 70 million (compared to the present 15 million) the relief will now increase with family size. Thus, the first child will receive a relief of M$650, the second M$750, and the next three children M$800 each.

The major change in the base of the company income tax structure has been the progressive liberalization of the accelerated depreciation allowance (ADA) since the 1977 Budget. Thus, in the 1982 Budget, ADA was extended to all industries, and in the 1984 Budget not only to the new plant and machinery but also to hospital, dental and medical equipment and telecommunications equipment. The ADA consists of a 20 per cent initial allowance and an annual

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allowance of 80 per cent, thus effectively allowing expensing rather than depreciation of plant and machinery. In the 1985 Budget, all mineral exploration expenses have been allowed immediate write-off.

The 1985 Budget suggests that the Malaysian Government has already reviewed the existing incentive system, and the review is expected to lead to the restructuring of the system.

Sales and Excise Taxes. The major change in the sales tax is the doubling of the rate from 5 to 10 per cent on both goods and services in the 1983 Budget. Moreover, the scope of the sales tax on services has been expanded to include those restaurants, coffee houses, and private clubs with turnover above M$500,000.

The excise taxes and import duties on both liquor and tobacco products were increased during the 1981 and 1983 Budgets. Excises on certain consumer durables, however, were abolished in the 1982 Budget. At the same time, appropriate reductions in the corresponding import duties were made.

Import Duties. In addition to the above changes in import duties, several changes were made in the 1984 Budget. Import duties were increased on 66 items, ranging from 5 to 50 per cent. The existing surtax of 5 per cent was integrated with the normal import duty structure. Many import duty rates were also changed from specific to *ad valorem* rates. In the 1985 Budget, a 50 per cent tax on consumer goods above a certain minimum amount brought in by travellers was announced.

Motor Vehicle and Related Taxes. In the 1983, 1984, and 1985 Budgets, there were sharp increases in the import duties on motor vehicles. Import duties on completely-built-up vehicles now range from 140 to 300 per cent depending on the value of the car. The import duty on completely-knocked-down motor vehicles was introduced for the first time in the 1983 Budget at the rate of 15 per cent. The 1985 Budget proposes to raise this rate to 40 per cent. Excise duties on domestically assembled cars are also to be raised in the 1985 Budget. They now range from 25 to 65 per cent depending on the value of the car. The 1985 Budget also proposes to increase the import duty on tyres. The excise and import duties on motor vehicles and related items are designed to provide protection to the domestic industry, and to assist in improving balance of payments by reducing imports.

In addition to the above changes, the cost of owning and using a car has also been raised substantially as a result of sharp increases in the road tax on passenger cars in the 1981, 1983, and 1985 Budgets, and in registration, transfer, and licence fees for motor vehicles in the 1982 and 1985 Budgets.

Export Duties. Major changes in export duties occurred during the 1980 and 1984 Budgets. In the 1980 Budget a new concept of export taxation based on a cost-plus approach was introduced. Under this concept the cost of production of the commodity is taken into account, and the appropriate duties are only imposed when prices rise above the cost of production. While the rate structure of export

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duties was progressive, a maximum marginal rate of 50 per cent for all commodities was set. The duty structure was changed to provide greater incentive for processing.

During this period there were also extensive changes in the structure of estate and stamp duties. The 1985 Budget also introduces a 10 per cent tax on the disposal of shares by a company having land as one of its assets. The tax, however, will only be applicable to the disposal of shares exceeding M$1million in value and to companies not listed on the stock exchange.

A significant non-tax development during this period was the expressed desire of the government to enhance the role of the private sector in the national economy. One of the instruments for achieving the above, which has received increasing attention during this period, was the privatization of selected government operations and investments.[14]

PHILIPPINES

Because of the deepening political and economic crisis in the Philippines, short-term considerations, especially those designed to satisfy conditions set by the IMF, the World Bank, and creditors, have come to dominate the tax and non-tax policy. This has been the case especially during 1983 and 1984. The above has meant frequent changes in the tax structure on goods and services and on international transactions. However, as will be noted below, two important tax changes with potential long-term significance for the tax structure have been made during this period. These concern the structure of personal income tax, and the introduction of a new investment incentive policy.

Personal and Corporate Income Taxes. A major change in personal income tax in recent years was effected through BP 135, approved on 18 December 1981.[15] Under the new system, a schedular system of personal income tax has been adopted in place of the global income tax. The three categories in which the income is divided are compensation income, income from the exercise of professions, and passive income. Each type of income is subject to different rates of tax. For compensation income, the rates now range from 1 to 35 per cent. The rates for the income from professions range from 5 to 60 per cent; while the rates for passive income range from 10 to 20 per cent. In contrast, the rates under the previous global income tax system ranged from 3 to 70 per cent.

The base of personal income tax was changed from the net to the gross basis under BP 135. For compensation income there are certain exclusions, such as pensions, and personal exemptions. This represents a considerable simplification of the previous global income tax system. For professional income, in addition to the exclusions and exemptions given for the compensation income, either a standard deduction of 10 per cent of gross income or itemized deductions are allowed to account for expenses incurred in earning the professional income. No exemptions or deductions are allowed for the passive income. In July 1983, special

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additional personal exemption was given to low-income individuals under PD 1868. Under the same decree, exemptions provided to individual taxpayers were increased substantially to compensate for inflation.

Two major changes in corporate income tax concern the removal of tax exemptions for state corporations; and the introduction of the new structure of fiscal incentives.[16]

The old incentive system was widely considered to be quite generous and to provide undue encouragement to capital-intensive projects. The new incentive policy replaces volume-of-investment-based incentives with two sets of incentives. These are the tax credit on net value earned (NVE), and tax credit on net local content (NLC).

NVE refers to the value of sales after deducting the cost of raw materials and components, supplies and utilities, and depreciation of capital equipment. The rate of tax credit varies from 5 to 10 per cent, depending on whether the enterprise has a pioneer or non-pioneer status and whether it is a domestic or an export producer. Indirect export producers are also eligible for a 5 per cent credit based on incremental exports. The usual period is five years from the date of commercial operations. NLC refers to the value of export sales after allowing for depreciation, value of imported raw materials and supplies and indigenous commodities produced by the enterprise but excluded by the Board of Investments. The NLC credit rate is 10 per cent and is given for five years. Both the NVE and NLC credits are transferable but only to domestic raw material or component suppliers of those firms registered with the Board of Investment. Moreoever, unused credit may be used in subsequent years.

The new system, however, does retain, and sometimes modify some of the incentives provided under PD 1789. These include partial or complete exemption of duties on imported equipment, tax credit on purchase of domestic capital equipment and so forth.

Sales and Excise Taxes. There have been only relatively minor revisions in the sales tax during recent years. These include the application of the uniform 25 per cent mark-up on advanced sales tax (introduced on 16 March 1983), instead of the range of 25 to 100 per cent previously applicable; and the tightening of tax credit provisions for raw materials, introduced on 16 February 1983.

There have been more frequent and significant changes in excises, especially those on petroleum products. Thus, on 1 July 1983, specific excises on gasoline and naptha were revised sharply upward. The excises on other petroleum products, however, were reduced. The rates of specific excises on all petroleum products, as well as on alcoholic products and cigarettes were revised sharply upward in November 1983. Moreover, as reported by Chanda and Galang (1984), recent agreement with the IMF includes quite sharp increases in petroleum, liquor, and tobacco products. Given the no-tax-increase pledge given in passing the 1985 Budget, the above changes would require controversial decree-making powers of the President.

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Taxes on Other Goods and Services. Among the more important changes in this category has been the doubling of travel tax on 1 July 1983. Under the decree dated 11 June 1984, this tax was to have increased sharply again. But political opposition has forced a slight moderation of the proposed increase.

Taxes on International and Foreign Exchange Transactions. Many of the major and controversial changes in the Philippines tax system over the last two years have been in this category.

In 1982, *ad valorem* surtax on imports was levied at the rate of 3 per cent. The rate was increased to 5 per cent in November 1983, and to 10 per cent in June 1984. However, as a part of the recent agreement with the IMF, this surtax is to be reduced to 5 per cent.

Frequent changes have also been made in export taxes, especially those on coconut, sugar, and logs. A recent agreement with the IMF called for the levying of additional taxes on the coconut and sugar industries in order to weaken the hold of these monopolies in the Philippine economy.

The recent agreement with the IMF also called for an end to multiple exchange rates and various taxes levied on foreign exchange transactions in June 1984. These include a 30 per cent "economic stabilization tax" collected on windfall profits of exports resulting from the peso devaluation, a 10 per cent excise tax on purchases of foreign exchange for non-priority imports and service payment; and 100 per cent surrender of banks' foreign exchange to the Central Bank. These so-called June measures were fully abolished by the end of 1984.

In addition to the changes in the various categories noted above, there have also been upward revisions in various fees, user charges, and vehicle registration fees. The last has proved to be quite controversial as it has become a political issue centring on the extent to which the decree making powers of the President can and should be used for making changes in the tax system.

SINGAPORE

In recent years, major changes in the tax system of Singapore have centred on personal income tax, tax incentives for companies, estate duties, excises on traditional items, and motor-vehicle-related taxes and charges, such as road taxes and parking fees.

Personal Income Tax. The proposition that incentives for work effort are significantly affected by the marginal rates of personal income tax has found ready acceptance in Singapore's tax policy. As a result, the rates of personal income has been reduced several times since 1978. During this period, the marginal tax rate range has been reduced from 5–55 per cent to 4–40 per cent which would be applicable in the year of assessment 1985. The chargeable income brackets have also been widened. In some years, such as the years of assessment 1981 and 1984, a rebate of 10 per cent of income tax liability was granted.

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In addition to the above, base reducing measures, such as removal of the ceiling on the amount of Central Provident Fund (CPF) contributions which are exempted from the personal income tax; generous child relief provisions for specially qualified married women; and increased earned income relief for the elderly, have also been undertaken in recent years. Married women have also been allowed a separate assessment of both the earned and unearned income.

Company Income Tax. Major changes in this tax have consisted of progressive liberalization of the accelerated depreciation provision which now applies to all activities rather than being confined to manufacturing; expensing rather than depreciation for computers and office automation equipment; and a series of incentives for the development of Singapore as a financial and fund management centre.

Excise Duties. A major change in the structure of petroleum excises occurred during the fiscal year 1981–82. In that year, petroleum excises were converted from specific to *ad valorem* rates. The 1981 rate of 40 per cent was increased to 50 per cent in November 1983. Excises on cigarettes and tobacco and liquor products, and on bets have also been increased in recent years.

Estate Duty. The nature and structure of estate duty was extensively revised during the 1984–85 Budget statement. Under the new structure, there are only two rates: 5 per cent on the first S$10 million of chargeable estate, and 10 per cent on subsequent amounts. Previously, the rates varied from 5 to 60 per cent. The exemption limit for residential properties was increased to S$3 million irrespective of the number of residential houses owned.

THAILAND

Major changes in the tax structure in Thailand in recent years have consisted of changes in the structure of personal income tax; revisions of import, export, and excise taxes; introduction of travel exit tax; and revision of stamp duties. Improvement in the tax collection machinery has also been a priority area in recent years.

Personal and Corporate Income Tax. The rate structure of personal income tax was last changed in 1980, when the range was changed from 7–60 per cent to 7–65 per cent. However, then and subsequently, there have been several increases in deductions and widening of the taxable income brackets. Moreover, as a part of the broad tax reform, reductions in personal income tax rates and increases in allowances are under active consideration.

The corporate income tax rate was changed in 1977 from a progressive tax rate system to a differentiated flat-rate system. At present, the rates vary from 20

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to 45 per cent depending on the criteria, such as whether a company is listed on the stock exchange.

Import and Export Duties. While there have been both increases and decreases in import duties on various items in recent years, the former have clearly predominated. Thus, in October 1982, a 10 per cent surcharge on all imported goods, with few exceptions, was levied. For a wide variety of luxury and non-essential items, the surcharge was subsequently raised to 20 per cent in October 1984. The same set of measures also included an increase in import duties on cement, textiles, and glass products. Import duties on marine products and flowers were also levied for the first time in October 1984. Following the 14.9 per cent devaluation of the baht against the U.S. dollar effective from 5 November 1984, however, surcharge on 1,400 items was removed. In recent years there have also been reductions in import duties on some items, such as energy-saving equipment, computers and components, some manufactured items such as garments, and on items susceptible to smuggling such as video tapes. In October 1982, import duties on liquor and beer were also increased.

The major change in export duty occurred in October 1984 when duty on rubber was reduced to make it on par with the rate in Malaysia. There also appears to be a liberalization of export tax on major commodities (Sricharatchanya, 15 October 1984, p. 105).

Excise Taxes and Exit Tax. In November 1983, there was a significant increase in excise taxes on liquor products. At that time, travel exit tax at the rate of 1,000 baht was also imposed.

In addition to the above changes, in recent years there has also been a substantial upward revision of stamp duties and an introduction in March 1982 of property sales tax at the rate of 10 per cent.

Implications

The previous section summarized major recent changes in the tax systems of the individual ASEAN countries. This section takes a more comparative view in examining various implications of the tax changes. This examination involves the effects of tax changes on incentives for effort and enterprise by individuals; the gap between the potential and the effective capacity to tax; efficiency in resource use and allocation; equity; trade-off between short-run imperatives and medium-term objectives; and harmonization of taxes in the ASEAN countries.

Incentives for Effort and Enterprise by Individuals. As noted in the previous section, many of the recent tax changes in the ASEAN countries have centred on personal income tax. In Singapore, Indonesia, and the Philippines, the personal income tax rates have been reduced significantly. Thailand is reported to be

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considering a reduction in the income tax rates. Personal exemptions have also been increased in Malaysia, Indonesia, and Thailand. While Indonesia and the Philippines have eliminated almost all the personal deductions, in other countries their scope has expanded somewhat.

Thus, the proposition that marginal tax rates are important in determining incentives to effort and enterprise appears to be accepted among the ASEAN policy-makers. While the proportion of workers affected by the personal income tax is not likely to be high except in Singapore, the proposition that the commitment and leadership of professionals and other individuals affected by personal income tax is likely to be at least potentially quite significant in determining dynamism of the economy also appears to be accepted by the policy-makers. They also hope, as noted below, that lower rates would encourage compliance and make enforcement easier.

Two points, however, may be noted here. The first is the lack of empirical evidence concerning the magnitude of the effects on effort and enterprise which may be expected. Secondly, when rates of personal income tax are reduced, there is likely to be revenue loss, at least in the short run. This has usually been made up by increasing sales and/or excise taxes on a wide range of consumer items. This has been the case especially in Malaysia and Indonesia. Thus, if these increases have adverse incentive effects, they would need to be subtracted from the positive effect of reduction in personal income tax rates. The magnitude of the net effect would determine the extent to which recent tax changes have provided incentives for effort and enterprise.

The Gap between the Potential and the Effective Capacity to Tax. The taxable capacity of a country is the presumed ability to generate taxes. Potential capacity may be regarded as a physical concept. It may be defined in at least two ways. The first would regard all income above a certain minimum level as potentially taxable. A more realistic definition would arrive at taxable capacity by defining the tax base of various taxes, such as the income tax, and the sales tax, as broadly as theoretically possible. In contrast, effective capacity is an economic and political concept, and depends on not only tangible but also such intangible factors as political will, taxpayer discipline, perceptions regarding the fairness of the fiscal system and other aspects of government, administrative efficiency, and so forth. It would seem that strengthening of the effective capacity to tax is clearly an alternative, especially when such capacity is low, to increases in taxes in mobilizing financial resources.

The above seem to have been recognized in the ASEAN countries. Thus, many of the tax changes discussed in the previous section have been intended to strengthen the effective capacity to tax. These include particularly the new Indonesian tax administration procedures, and successful attempts by Singapore and Thailand to increase the number of individual taxpayers by better enforcement.[17]

The increase in effective capacity to tax is, however, a longer term process.

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There still appears to be a lot of room for improvement, especially in the Philippines. In the other ASEAN countries as well, somewhat increased regressivity of the tax system as a result of the recent tax changes, coupled with the lowering of real government expenditure, increases in administered prices of public enterprises, and expected slow growth, would have to be reconciled with the need to maintain perceptions of the taxpayers that the fiscal system is fair. Thus, short-run imperatives seem to conflict with the medium-term objective of increasing the effective capacity to tax.

Efficiency in Resource Use and Allocation. The above objective is also apparent from the various changes noted in the previous section. Thus, Indonesia proposes to move to presumably less distortive sales tax of the value-added type. It has also abolished various fiscal incentives adversely affecting resource use and allocation. The Philippines has also revamped its fiscal incentive system; while Thailand has been attempting to move to a less distortionary business tax. Both Malaysia and Thailand have also revamped their export duty structure to promote efficiency. Moreover, all the ASEAN countries have been attempting to tighten up the operations of their "Off-Budget-Agencies" (OBAS), and thereby promote efficiency in resource use. Privatization and deregulation drives in Malaysia, Indonesia, and Thailand are also intended to serve this objective.

However, as noted below, certain tax changes, such as the increases in import duties on consumer items, and the growing use of exit taxes, are likely to conflict with the above objective. Moreover, internal and external changes noted in the first section suggest the need to use a somewhat longer-term and dynamic concept of efficiency. How to operationalize such a concept, and to integrate it with development strategy requires much greater attention than perhaps has been the case so far.

Equity. Traditionally, two aspects of equity are emphasized. These are horizontal equity, that is, how to treat individuals who have similar tax-paying characteristics; and vertical equity, that is, how to treat those who do not have similar tax-paying characteristics.

Recent tax changes in ASEAN are likely to improve horizontal equity of the tax systems, especially if the administrative and other reforms under way prove to be successful. This may be considered a significant improvement in the equity of the tax system.

However, the shift to *in-rem* consumption taxes and generous depreciation provisions, along with increases in administered prices of public enterprises, and a reduction in government expenditure,[18] are likely to have worsened the vertical equity of the fiscal system in general, and the tax system in particular.

The above would not be a source of concern in an era of rapid growth which would make available ample employment opportunities;[19] or if non-tax policies are used to mitigate the adverse equity effects. Except for Brunei and Singapore, neither of the two factors are likely to be significant for the rest of this decade.

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Thus, concern with vertical equity is likely to grow. This, of course, would be the case to an even greater extent in the Philippines where IMF-mandated measures will adversely affect vertical equity and result in growing income inequality. At least, this would be the most probable outcome if the traditionalist development strategy continues to be followed.

The adverse effects on both vertical and horizontal equity would be greater if the hoped for improvements in compliance do not materialize, or if political and other pressures prevent the continuation of the expanded tax base. Lack of progress in compliance would obviously prevent improvement in horizontal equity; while shortfall in revenue caused by failure in the above two areas would most likely be made up by further regressive measures. Thus, equity effects of the recent tax changes critically depend on achieving a significant degree of success in the above two areas.

Trade-Off between Short-Run Imperatives and Medium-Term Objectives. This trade-off is particularly evident in the desire to move to a more export-oriented strategy by the ASEAN countries and the need to tackle the budgetary and the balance of trade and/or payments problems, especially in Indonesia, Malaysia, the Philippines, and Thailand. Thus, as noted in the previous section, these countries have had to take a series of measures, especially concerning trade taxes, which mitigate against the export-oriented strategy.

Whether the need for the above trade-off is temporary, or whether some modification in the export-orientation objective will be made, is too early to speculate. But some ASEAN countries, such as the Philippines, have shown inclination towards more efficient regional import substitution strategy as at least a partial substitute for export-orientation.

Another set of trade-offs concern the short-run costs of tax changes and the medium-term benefits expected from them. Thus, Asher, after analysing the new VAT package of Indonesia, concludes, "though the adverse effects are likely to be immediate, the favourable effects are likely to take much longer to materialize" (1984a, p. 206). While short-run costs should not be made an excuse to postpone needed reform, differing timing of the costs and benefits cannot be entirely ignored either. It remains to be seen whether dynamic effects of short-run costs of tax reform in Indonesia would work against the hoped for medium-term benefits.

Harmonization of Tax Systems. The discussion in the previous section also suggests that the recent tax changes have on balance increased the divergence of the ASEAN tax systems. This is particularly evident in the way personal income tax structures have been changed. Thus, the Philippines has moved from a global to a schedular income tax system, while Indonesia has moved in the opposite direction. The personal income tax structures in Singapore and Malaysia have, however, converged, at least as far as the rates are concerned. Sales taxes, and the incentive systems have, however, moved somewhat further apart as a result of changes in the former in Malaysia (widening of the base) and Indonesia (moving to

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a value-added tax), and in the latter as a result of changes in the incentive system in the Philippines and the abolition of incentives in Indonesia.

Given the low level of economic co-operation among the ASEAN countries, the increased divergence is unlikely to be of much significance. One area, however, in which the potential significance may be larger concerns the ASEAN industrial complementation schemes.

Concluding Observations

This paper has attempted to summarize the recent tax changes and to analyse major implications arising from them. The discussion contained in this paper does provide evidence to suggest that some of the key characteristics of the ASEAN countries, such as pragmatism, and financial and fiscal prudence, have continued to guide the policy-making in the tax area in recent years. However, the ASEAN countries would have to meet tax and fiscal objectives in an increasingly difficult environment. The ASEAN policy-makers also face many dilemmas and uncertainties in their perusal of tax and fiscal policies. Moreover, the time horizon for achieving results, especially concerning the use of the fiscal system to achieve equitable distribution of benefits of growth also appear to have become shorter. As a result, promises concerning expected future benefits may no longer be sufficient to command compliance with and acceptance of the fiscal system. Tax and fiscal systems of ASEAN, thus, are at a critical juncture. Success or failure of the recent tax reform under way in ASEAN would have far wider consequences than just for their fiscal systems.

NOTES

* This is a revised version of the paper presented to the 1984 Concise Tax Program, Inland Revenue Department, Republic of Singapore.

1. The member countries are Brunei, Indonesia, Malaysia, Philippines, Singapore, and Thailand. Brunei joined ASEAN in January 1984. However, because of the unavailability of data, Brunei is excluded from the analysis.
2. Thus, the GDP growth rate in the industrial market economies, which include all the OECD countries except Greece, Portugal, and Turkey, was 2.8 per cent per annum during the 1973–79 period. The rate fell to 1.3 per cent in 1980 and 1981, to −0.5 per cent in 1982, and to an estimated 2.3 per cent in 1983 (World Bank 1984, Table 2.1, p. 11). While the growth rate is likely to recover in 1984 and 1985, led by the strong recovery under way in the United States, the outlook beyond 1985 continues to remain uncertain. The International Monetary Fund (IMF) expects the growth rates in industrialized countries to exceed 3.5 per cent in both 1984 and 1985 (*Far Eastern Economic Review*, 27 September 1984, p. 87).
3. For a critique of the recent policies of the United States towards the World Bank, see Anthony Rowley (27 September 1984), pp. 65–67.
4. Thus, the price of oil peaked at around US$35 per barrel during 1979–80. Since then it has fallen by US$6 per barrel (World Bank 1984, p. 27). The adverse effects of the fall, however, have been, at least partially, offset by the recent strength of the U.S. dollar, a currency in which most of the oil trade is conducted.

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5. See Nayan Chanda and Jose Galang (1984), pp. 64–65, for details of the recent agreement between the IMF and the Philippines.
6. For a view that the development strategy advocated by the World Bank and followed by the Philippines has not been, and is not likely to be successful, see Bellow et al. (1982). See also, David (1984).
7. For details of the three tax laws, see Khan (1984).
8. Except for co-operative associations, for which it varied between 2.5 and 10 per cent.
9. For details, see Asher and Booth (1983), ch. 2.
10. The importance of zero-rating lies in the fact that input taxes in the production of such goods are refunded, thus removing all of the tax burden. However, those goods which are exempted are not eligible for refund of input taxes.
11. Details of many of these changes may be found in Awanohara and Habir (20 January 1983).
12. The following figures concerning Malaysia may be instructive in this respect.

Category	1976–80	1981–82
Annual Rate of Growth of Public Debt	14.56	29.02
Annual Rate of Growth of GNP	17.48	4.10
Annual Rate of Growth of Overall Deficit	25.62	22.10
Public Debt as % of GNP	49.04	64.95
Overall Budget Deficit As % of GNP	9.5	19.3
Domestic Debt As % of Total Debt	78.56	71.35

SOURCE: Ismail Muhd. Salleh (1984), Tables 1–3, and 4.

13. Thus, in presenting the 1982 Budget of Malaysia in October 1981, the Finance Minister stated, "the budget . . . will continue to be expansionary" (1982 Budget Speech, p. 8). When he presented the 1983 Budget in October 1982, however, he stated, ". . . true to our traditional style of pragmatism and prudence in fiscal management, we decided to restrain expenditure expansion . . ." (1983 Budget Speech, p. 6). He also stressed during the 1983 Budget Speech the need for continuing financial discipline.
14. See Smith (15 September 1983) and Jasin (September 1984).
15. The discussion of the new system of personal income tax is from Yoingco (1984).
16. The discussion on the new incentives policy is from Guevera (1984). It is enunciated in BP 391 and was approved on 18 April 1983.
17. Thus, Sricharatchanya (Sept. 27, 1984) reports that the number of personal income taxpayers in Thailand increased from 1.3 million in 1976 to 2.4 million in 1983. Since 1982, the annual growth in the number of personal income taxpayers has averaged 10 per cent, compared to less than 5 per cent previously.
18. Though here, much would depend on which types of expenditure have been reduced. This would be an interesting area of research.
19. For some countries, such as Indonesia, and the Philippines, significant increases in output in major employment-providing sectors such as agriculture, may help reduce the severity of the adverse equity implications of fiscal changes. However, if this increase in output is the result of greater capital intensity, then the unemployment problem is likely to worsen, at least in the short run. Moreover, if this increase in output is dependent on imported inputs, adverse effects on balance of payments may result.

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DOCUMENTATION

Pacific Basin Assumes Major Importance to the United States: Highlights of Wolfowitz' Year-End Interview

WASHINGTON — "Whether from the security, economic or political standpoint, the nations of the Pacific Basin are rapidly assuming a position of major importance to the United States, not only regionally but also in a global sense," according to Paul Wolfowitz, Assistant Secretary of State for East Asia and Pacific Affairs.

Wolfowitz made the observation in a year-end interview with USIA staff writer Jeanne Holden, held between two of this winter's Asian-American highpoints — President Reagan's November trip to Asia, and Chinese Premier Zhao Ziyang's upcoming visit to Washington.

The President's November trip, Wolfowitz pointed out, had helped to bring the growing importance of U.S. relations with Asia to the attention of both Americans and Asians.

"The President's April trip to China, which will be his second to Asia in only six months, will serve to further consolidate our Asia-Pacific relationships," he added.

Other highlights of his year-end interview included:

Soviet Threat:

— The President's trip "demonstrated our concern with Soviet intentions and activities in the Pacific, as witnessed by the KAL downing, the growth in the Soviet Pacific Fleet . . . and the targetting of over one-third of Soviet SS-20's on Asia."

— Apart from the tragedy of the KAL incident, according to Wolfowitz, " the Soviet attitude in its aftermath . . . has reinforced for many in Asia . . . the nature and reality of the Soviet threat."

Relations with the People's Republic of China:

— The Reagan Administration believes the East Asian region has "much to gain from a co-operative U.S.-China relationship which promotes peace and stability in East Asia and opposes Soviet and Soviet-proxy expansionism in the region.

Relations with ASEAN:

— Malaysian Prime Minister Mahathir's upcoming visit (17–20 January) "like the earlier visits of the other ASEAN heads of government, symbolizes the importance the U.S. places on these countries both individually and as members of ASEAN".

— The Reagan Administration "particularly appreciate[s] ASEAN's widely supported efforts to restore the independence and neutrality of Kampuchea . . ."

— "The establishment of a neutral, non-aligned Kampuchea . . . is essential to the long-term stability and security of Southeast Asia."

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Relations with Japan:

— The Reagan Administration believes that "in view of the large and continuing Soviet military build-up in the Far East . . . it is necessary for Japan to boost further its capability to defend itself."

Relations with the Philippines:

— "Despite the political and economic uncertainties that have characterized some recent developments in the Philippines, our bilateral relationship with that country remains firm and cordial."

— The Administration views "free and fair national assembly elections . . . and a thorough and impartial investigation of the circumstances of the Aquino assassination to be among the most crucial factors . . . to normalize the situation in the Philippines."

The Anzus Alliance:

— The 1983 Anzus Council review of the Anzus Mutual Security Treaty "reaffirmed the view held by successive Australian, New Zealand, and U.S. Governments . . . that the Anzus alliance is vital to the common defence and broader interests of our three nations and peoples."

Q: How has the President's trip to Japan and Korea helped to strengthen U.S.-Asian relations?

A: One of the major purposes of the President's trip was to bring to the attention of Americans as well as Asians the growing importance of our relationships in Asia. Whether from the security, economic or political standpoint, the nations of the Pacific Basin are rapidly assuming a position of major importance to the U.S., not only regionally but also in a global sense. To cite only two examples: we trade more now with Asia than we do with any other region of the world, and Japan has become our largest overseas trading partner.

The President's trip also demonstrated our concern with Soviet intentions and activities in the Pacific, as witnessed by the KAL downing, the growth of the Soviet Pacific Fleet (which is now its largest), and the targetting of over one-third of Soviet SS-20's on Asia.

I think that the President's trip was very successful in focusing Americans' attention on Asia and on the important interests we have there. At the same time it has helped to communicate to Asians our own recognition of their increasing strength and maturity. The President's trip has also enabled us to address some outstanding bilateral issues we have with Japan and Korea. I expect that the President's April trip to China, which will be his second to Asia in only six months, will serve to further consolidate our Asia-Pacific relationships.

Q: What might be the economic or security benefits for the East Asian region of improved U.S.-China relations?

A: Since the early 1970s, successive American administrations have sought to develop a strong and enduring relationship with China, for its strategic and regional security value as well as for the benefits derived from bilateral commercial, cultural, and scientific exchanges.

1983 was a year of particularly active and important interchange. Secretary Shultz and Foreign Minister Wu exchanged visits, during which our dialogue was advanced. Secretary Baldrige and Secretary Weinberger each made significant trips to Beijing,

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announcing and explaining the President's decision to liberalize technology transfer policies for China. Agreements were reached concerning trade in textiles, grain, and other areas of mutually beneficial economic concern.

As to the benefits to be derived by the East Asian region, we have always made clear to all our friends and allies in the area that improvements in U.S.-China relations would not come at their expense. We have consulted closely with our regional friends and allies as our relationship with China has developed. Our approach to the Chinese has been heavily influenced by our belief that the other states in the region have much to gain from a co-operative U.S.-China relationship which promotes peace and stability in East Asia and oppose Soviet and Soviet-proxy expansionsim in the region.

We believe that a politically stable and economically developing China best serves the interests of all the states of the region. Our policies are designed to assist in that process.

Q: Do you think the KAL incident has changed the way our friends and allies in East Asia and the Pacific view the Soviet Threat?

A: We have been concerned for some time about the willingness of the Soviet Union to live within the bounds of acceptable international behavior. We have also had a very specific concern with the steady build-up of Soviet power in the Pacific which has been under way for over a decade now. Apart from the tragedy of the incident itself, I think that the Soviet attitude in its aftermath, and its unwillingness to admit fault, provide compensation or otherwise co-operate with the international community, has reinforced for many in Asia things that they already knew, from Soviet actions in places like Afghanistan and Indochina, about the nature and reality of the Soviet threat. After all, the KAL aircraft was downed only a short distance from both Japan and Korea, and many citizens of those nations and other Asian nations were killed.

Q: What is the Administration's view of the ASEAN nations' effort to resolve the Kampuchean problem?

A: The Administration strongly supports the efforts of the ASEAN nations to achieve a comprehensive political settlement in Kampuchea. ASEAN's approach to the problem makes it clear to Vietnam that its occupation of Kampuchea cannot be sanctioned and that it is in Vietnam's interest to negotiate a settlement. U.N. General Assembly voting on Kampuchea has consistently underscored Vietnam's isolation of Kampuchea and the broad international support for ASEAN's efforts to achieve a political settlement.

We share with ASEAN the goal of a complete Vietnamese withdrawal from Kampuchea and the restoration of Khmer self-determination. The establishment of a neutral, non-aligned Kampuchea, which is not a threat to any of its neighbours, including Vietnam, is essential to the long-term stability and security of Southeast Asia.

Q: We've talked about President Reagan's visits to Japan, South Korea and China and about ASEAN interests *vis-á-vis* Indochina. What do you foresee in U.S. relationships with individual Southeast Asian nations in 1984?

A: First of all, I want to say that the President greatly regretted having had to postpone his visit to Southeast Asia which was to have included a meeting in Jakarta with the foreign ministers of the ASEAN countries. Rescheduling a Southeast Asia visit is still a high priority in the President's future travel plans but we are not in a position to predict when a visit might be arranged.

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We very much look forward to the Washington visit of Malaysian Prime Minister Mahathir on 17–20 January. Dr Mahathir's visit, like the earlier visits of the other ASEAN heads of government, symbolizes the importance the U.S. places on these countries both individually and as members of ASEAN. We share great and growing economic and political interests with each of them. We particularly appreciate ASEAN's widely supported efforts to restore the independence and neutrality of Kampuchea, which would contribute greatly toward ensuring peace and stability on the Southeast Asian mainland.

We very much look forward to pursuing our high-level dialogue with ASEAN. In addition to the recently-concluded economic dialogue meeting in Manila, which was highly useful from our standpoint, Secretary Shultz is anticipating another very productive round of consultations when the ASEAN foreign ministers meet again in mid-1984 in Indonesia.

Q: At the Shimoda Conference and during the President's trip to Japan, the Reagan Administration emphasized the need for Japan to increase its self-defence expenditures. Would you comment on the reasons for this?

A: Under the Reagan Administration, the United States has tended not to focus on defence spending as such, but rather on defence roles and missions. Japan has set for itself the missions of defence of Japan's homeland, its territorial sea and air space, and its sea-lanes out to 1,000 nautical miles. The United States believes that these are appropriate missions for Japan to undertake.

Naturally, it is up to the government and people of Japan to determine the amount of money that they will spend for defence. Our hope is that Japan will develop the capabilities to fulfil these missions as soon as possible.

There are a number of reasons for this. Firstly, we believe that Japan is economically capable of bearing a larger share of our common defence burden. Secondly, in view of the large and continuing Soviet military build-up in the Far East during the past few years, it is necessary for Japan to boost further its capability to defend itself. Finally, and this is related to the last point, an enhanced Japanese self-defence capability is of interest to both our nations because U.S. forces traditionally available for defence roles in the Western Pacific have been needed in recent years to respond to security contingencies in other vitally important regions. Foremost among these is the Persian Gulf area and the defence of the oil routes there, a mission that directly benefits Japan, which imports 80 per cent of its oil from the Gulf region.

Q: In the spring of 1983, the U.S.-Philippine military bases review was hailed as a success, increasing the security of the U.S. and its Pacific allies now and in the future. In late summer, however, Philippine opposition leader Benigno Aquino was assassinated and, since that time, Manila has been the site of much economic and political unrest (capital flight, demonstrations). What was the impact of these events on U.S. relations with the Philippines and/or the military bases arrangement, and on the overall security or stability of the region?

A: Despite the political and economic uncertainties that have characterized some recent developments in the Philippines, our bilateral relationship with that country remains firm and cordial. There have been some public expressions of anti-American sentiment, but this position is not shared by the overwhelming majority of the Filipino population. Meanwhile, the implementation of the memorandum of agreement signed

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during the review last spring of the U.S.-Philippine military bases agreement is proceeding smoothly on both sides.

As for the effect of recent developments in the Philippines on the stability of the country, there are admittedly serious problems still to be worked out. One of the most urgent of these relate to the Philippine's difficulties in servicing its external debt, which has necessitated stringent restructuring and austerity measures at home and the co-operation of the Philippines' foreign creditors in working out co-ordinated relief measures abroad. On the political side, we continue to view the holding of free and fair National Assembly elections next May and a thorough and impartial investigation of the circumstances of the Aquino assassination to be among the most crucial factors that could serve to normalize the situation in the Philippines.

Q: This past summer, during the annual Anzus Council meeting, representatives of Australia, New Zealand and the U.S. held the first review of the Anzus Treaty. What was the importance of this review in terms of mutual security interests?

A: The 1983 Anzus Council meeting afforded an opportunity for a most thorough review of the Anzus Mutual Security Treaty. It will be recalled that the Treaty was negotiated in the aftermath of World War II when the world faced a set of political and economic circumstances quite different from those of today. We are pleased to conclude in the course of the review that the Treaty is as valid today as it was when it was negotiated. Although the world situation and threats to our security have changed in many ways, the Anzus alliance has the resilience to make it as relevant to our individual and collective security interests today as it has been in the past.

The review reaffirmed the view held by successive Australian, New Zealand and U.S. governments for over thirty years that the Anzus alliance is vital to the common defence and broader interests of our three nations and peoples. We have a long history of friendship and close co-operation based on the important values that we hold in common and we are pleased that our friendship and co-operation remain strong.

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BOOK REVIEW

The Dilemma of Independence: Two Decades of Malaysia's Foreign Policy 1957–1977. By J. Saravanamuttu. Penang: Universiti Sains Malaysia, 1983.

Ph.D. dissertations, provided that they are well researched and published before interest in them fades, are a reliable source of scholarly works for the publishing business. It needs to be emphasized, however, that depending on the subject matter, publication must not be unduly delayed.

J. Saravanamuttu's work is a case in point, but of course with certain reservations. The study was originally submitted to the University of British Columbia in 1976. Since the present book covers events up to 1977, we can only assume that the author added a couple of years to his original study to conveniently title his study, *Two Decades of Malaysia's Foreign Policy*.

The book is divided into six chapters. The first and last chapters provide the theoretical introduction and conclusion, while chapters two through five discuss the main topic. As the author himself has pointed out, "the introductory and concluding chapters are . . . devoted to discussing . . . broad theoretical points. The general reader may . . . skip these two sections without doing violence to the empirical thrust of the work which chiefly attempts to record as faithfully as possible the content and course of Malaysian foreign policy in the period surveyed".

Saravanamuttu has convincingly divided his periods into 1957–63, 1964–69, 1970–75, and 1976–77. (Having not had access to the dissertation, I can only assume that the last period is an addition to the original work.) To quote the author, "the beginning or end of each period is marked by an event or events which have a significant impact generally on politics and in particular on foreign policy". For each of the time periods, he has chosen three issue areas as his foci of study — namely, Defence and Security, Development and Trade, and International Co-operation and Diplomacy, which broadly summarize the "national needs" approach. Thus, the four corresponding chapters systematically describe and analyse the issues, providing a clear picture of not only the events and personalities but also the "links" between the periods, highlighting the continuities and changes within the two decades. As it is not a study on foreign policy formulation and the decision-making process, we could perhaps overlook the author's rather concise treatment of the section on the Ministry of Foreign Affairs, its structures and functions, both in the introductory and main sections of the book.

The four chapter headings, "The Dilemma of Independence, 1957–1963", "Confrontation", "Turmoil and Change, 1964–1969", "New Direction Under a New Order, 1970–1975", and "The Consolidation of Policy, 1976–1977", aptly summarize the main themes in each chapter; hence there is no necessity to dwell on the details here. However, I would question the aptness of the title of the book, *The Dilemma of Independence. Two Decades of Malaysia's Foreign Policy* . . . . Reading the book, one

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does not get the impression that Malaya (and later Malaysia) faced a "dilemma" in its foreign policy over the twenty-year period nor is this theme (the dilemma of independence) adequately developed in the text or in the conclusion. The term "dilemma" would be nothing more than a current catchword if it is not integrated into the theoretical and textual parts of the work.

In general, the book provides a number of useful tables on trade and other external indicators, and of particular interest are the "Policy Output" tables, explaining the objectives, postures, strategies, and actions. However, the numerous figures and explanatory charts do not appear to be very helpful; as the text adequately presents the points the reader should not be confused with too many criss-crossing arrows. One of the commendable presentations is the seven-page "Chronology of Events From the Outset of Konfrontasi Till its Termination", including all the related events of the period beginning in January 1963 and ending in August 1966. However, since it is not particularly limited to the topic of the chapter, it would have been better to include it in an appendix, so as not to disrupt the flow of interest within the chapter.

On the whole, Saravanamuttu has presented an interesting and well researched book, clearly laid out within a defined analytical framework. One could only hope that he comes out with a sequel so that we may follow up with an up-to-date analysis of post-1977 issues and personalities and a more current listing of the relevant bibliography.

Pushpa Thambipillai
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Multinational Business and National Development
A Reply to Professor H.W. Arndt

I thank the editors for giving me this opportunity to reply to Professor H.W. Arndt's thought-provoking review of my book, "*Multinational Business and National Development: Transfer of Managerial Knowhow to Singapore*" (Contemporary Southeast Asia 6, no. 3 [1984]: 272–73). Although I find his opinions valuable, and for which I am grateful, I would like to make the following clarifications.

The first clarification concerns the relationship between the case study and the power theory of development. The case study is supposed to illustrate "the theoretical possibility of an MNE contributing to the host nation's power and development by its transfer of resources there". The "case illustration" demonstrates, therefore, one aspect of a macro-theory at the micro-level of a firm in one specific host country and relating to one specific resource, namely, managerial know-how. This is certainly not the same as what Professor Arndt had stated: ". . . four theoretical chapters designed to demonstrate that the issues posed by the case study are illuminated by Dr Chong's 'power theory of development' ".

Secondly, Professor Arndt, in his review, seemed to have attributed to me a position which I do not hold. He wrote: "MNEs control a huge amount of the world's resources. It follows that MNEs can powerfully influence a country's development, positively or negatively. . . . Dr Chong would surely agree that even in Singapore's case the contribution of

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MNEs has been marginal''. I would like to point out here that although MNEs do control a huge amount of the world's resources, and can possibly influence a country's development, it is highly unlikely that any single MNE would exercise such an influence on its own accord. This is certainly an unlikely goal for a business firm to pursue, unless incentives are given and/or some pressure is exerted by the host government. This was precisely why I emphasized in my book that MNEs always act in their own self-interests. In the case of Singapore, the contribution of MNEs has certainly been much more than could be described as ''marginal'', although other factors such as good government, local business enterprises and expertise, educated, trained and disciplined labour force, and the presence of political stability and industrial peace are all also very important. The following statistics reveal the importance of foreign businesses (MNEs) in Singapore's development: 1) the net investment commitments in manufacturing in recent years are mainly foreign. Official statistics reveal that foreign net investment commitments in the manufacturing sector for the years 1979–83 varied between a high of 87.3 per cent in 1979 and a low of 65.2 per cent in 1982. In 1983, it was 71.1 per cent. 2) The foreign component of the gross national product (that is, GNP at market prices minus the indigenous GNP) constituted about 20 per cent of the gross national product in recent years (23.1 per cent in 1980, 19.6 per cent in 1982 and 20.0 per cent in 1983).

Thirdly, Professor Arndt seemed to have suggested that I have used the case of Mobil's eviction of ''the widow of a Mobil station proprietor'' to support my generalization that MNEs act in their own self-interests. I must point out here that the case of Mobil's eviction of the widow of a Mobil station proprietor was used by me in Chapter Three of my book as ''an illustration of a 'clash' in business cultures, between that of the company, and that of the local Chinese businessmen in Singapore'' (p. 57). The context of the illustration has nothing to do with ''enlightened self-interest''.

In closing, I must admit that I do find Professor Arndt's review both interesting and helpful.

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National University of Singapore

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077 577

Contemporary Southeast Asia
Index to Volume 6

Volume 6, Number 1 — **June 1984**

Articles

Joint Enterprises in the Malaysian Agricultural Sector — MAVIS PUTHUCHEARY and STEPHEN MILNE

Politics at the Periphery: A Study of the 1981 and 1982 Election Campaigns in Sabah — BRUCE GALE

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Co-operation in Southeast Asian Fisheries — GEORGE KENT

Documentation

Indonesia: Draft State Budget (1984/85)

Book Review

New Foundations for Asian and Pacific Security — LAU TEIK SOON

Some Recent Publications

Volume 6, Number 2 — **September 1984**

Articles

U.S.-ASEAN Relations in the 1980s — ROBERT C. HORN

Philippine Economic Performance in Regional Perspective — HAL HILL *and* SISIRA JAYASURIYA

Multinational Corporations and Industrialization in Southeast and East Asia — BASU SHARMA

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Documentation

Address from the Holy See to the Government, Diplomatic Corps and Religious Leaders, 11 May 1984, Bangkok, Thailand

Book Reviews

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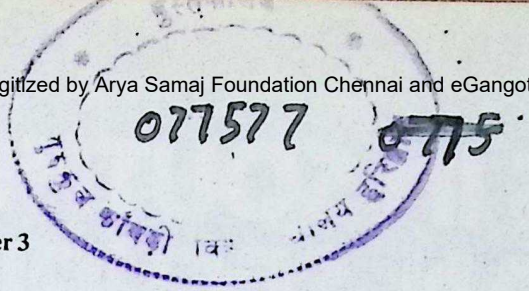

Volume 6, Number 3 **December 1984**

Articles

Church and State in the New Republic of the Philippines — ROBERT L. YOUNGBLOOD

The New French Socialist Foreign Policy and Indochina — ERIC TEO

Some Development Problems in Bali — W. DONALD McTAGGART

Recent Political Developments in Thailand and Their Implications for the Future — KRAMOL TONGDHAMACHART

Manpower Planning and Development in Malaysia — SIEH MEI LING *and* LIM LIN LEAN

Documentation

The Challenge of Economic Development

Statement Issued by the Sixteenth Meeting of the ASEAN Economic Ministers

Book Review

Multinational Business and National Development: Transfer of Managerial Knowhow to Singapore — H.W. ARNDT

Some Recent Publications

Volume 6, Number 4 **March 1985**

Articles

Housing and Development in Singapore — CEDRIC PUGH

Co-optation and Elite Accommodation in Malaysian Politics — SIMON BARRACLOUGH

Recent Tax Changes in ASEAN and their Implications — MUKUL G. ASHER

Documentation

Pacific Basin Assumes Major Importance to the United States: Highlights of Wolfowitz' Year-End Interview

Book Reviews

The Dilemma of Independence: Two Decades of Malaysia's Foreign Policy, 1957–1977 — PUSHPA THAMBIPILLAI

Multinational Business and National Development: A Reply to Professor H.W. Arndt. — CHONG LI CHOY

Some Recent Publications

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TERRITORIAL POWER DOMAINS, SOUTHEAST ASIA, AND CHINA
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In the conclusion, attention is drawn to the relevance of the regional strategic environment to a debate, discernible in the early 1980s, on the relative merits of coastal coalition defence and a purely maritime strategy as seen in the context of global superpower rivalries.

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